A ROADMAP TO Recovery

Presented by **Councilmember Carl DeMaio**

Proposed FY 2012
Balanced Budget
- AND -
Long-Range Restructuring Plan for City Government

OUR DESTINATION IS

Clear

... to create a city government we can be proud of again.

And to get there, we need...

A ROADMAP TO

Recovery

Let's unite and make this journey together...

Table of Contents

Table of Contents - Appendix

A Message From
Carl DeMaio

"A New Approach To City Government"

My Fellow San Diegans,

We have so much to be proud of as San Diegans -- from our amazing environment to our diverse communities; from our world-respected research institutes to our leading companies.

Unfortunately, when it comes to our city government, San Diegans have been let down time and time again.

Incremental and limited reforms have not solved our structural deficits, have not saved our basic services from cuts, and have not resulted in restoring the public's trust and confidence.

We need major change – and a new approach to achieving that change. Moreover, we need nothing less than a redefinition of what our city government does and how it does it.

To achieve lasting change, I present to you for your consideration this ***Roadmap to Recovery*** -- a comprehensive framework for solving the city's immediate and long-term financial problems.

Emulating the Bankruptcy Process

Given the gravity of the city's financial problems, some have proposed bankruptcy as the vehicle for reform. I strongly disagree, but have incorporated some elements from a traditional bankruptcy proceeding into the Roadmap – achieving each without the stigma, expense, and uncertainty of a bankruptcy filing.

Balancing the Budget – Protecting Core Services

The Roadmap balances the FY 2012 budget with $75-90 million in costs savings – and without reducing core services in police, fire, libraries and parks.

Reforming the Pension and Labor Costs

By comprehensively reforming salaries and benefits the Roadmap brings the cost of operating our city government down to sustainablelevels in line with our local labor market.

To hold city leaders accountable, I believe we should work together to prepare a plan, submit it to voters, and be bound by it. By articulating 10 Commitments -- and by placing several items up for a public vote -- the Roadmap puts reforms into an ***irrevocable contract imposed on city leaders by the public.***

With the defeat of Prop D, San Diegans have issued a mandate for reform and change in city government. This Roadmap seeks to fulfill that mandate – and deliver our city to the destination of a city government we can be proud of again.

Carl DeMaio

A ROADMAP TO Recovery | 10 Commitments

10 Commitments to Create a City Government We Can Be Proud of Again

Commitment 1
Accountability for Results

City government should hold all employees accountable for clear performance goals and continual improvement – and taxpayers should receive an annual “Performance Report Card” on city government.

Commitment 2
Open Government

San Diegans deserve a city government that conducts all business in an open and transparent manner.

Commitment 3
Back to Basics - Clean and Safe Neighborhoods

City government should restructure its operations around a clear mission: to create clean and safe neighborhoods – and utilize new vehicles and partnerships to deliver these services.

Commitment 4
Comprehensive Pension Reform

City employees should receive a reliable retirement allowance that is no better and no worse than the average San Diego taxpayer – and city employees should assume a fair share of the risks and costs of these benefits.

Commitment 5
Reform City Salaries and Labor Contracts

City labor contracts should be reformed and compensation for city employees should be benchmarked to the local labor market.

Commitment 6
Fair and Open Competitive Bidding

To achieve efficiencies in city operations and implement the will of the voters, open and fair competitive bidding on city services should be conducted on a regular basis.

Commitment 7
Jobs-Friendly Policies

City government should be a help – not a hindrance – to job creation and retention in our region through small businesses assistance programs and development programs targeting four core sectors (Tourism, Defense, High Tech, and Clean Tech)

Commitment 8
Rebuilding City Infrastructure

After years of neglecting maintenance of our streets, sidewalks and public facilities, city government must commit dedicated financing for and improved management of city infrastructure.

Commitment 9
Regional Government Solutions

Funding and delivery of some city functions should be consolidated between the City and the county government, Port of San Diego, and Redevelopment Agency.

Commitment 10
Lead by Example

City politicians should lead by example by reforming their own perks of office and their own pensions.

“Using these 10 Commitments as a guide, city leaders should prepare detailed implementation plans, submit key elements to voters at the next election, and be bound by these commitments.”

– Carl DeMaio

Imposition of Reforms By Voters Through Ballot Measures

One of the only attractive features of a bankruptcy proceeding is that a judge can hold a business accountable for implementing reforms and making changes. As an alternative, the Roadmap to Recovery suggests the ballot measure process to recreate that accountability mechanism in city government.

Once approved by the voters, a ballot measure would bind and commit city leaders to follow a specific course and achieve specific targets. These ballot measures should have specific and concrete language and requirements for achieving reform.

Charter Amendment: Imposition of General Fund Spending Cap and City-Wide Labor Cost Cap

The Charter would be amended to impose five-years of caps on General Fund spending as reflected in the five year fiscal forecast. The Charter would also be amended to cap "labor costs" city-wide for five years using the FY 2011 adopted budget as a baseline. "Net labor costs" is defined as total amount of taxpayer monies spent on salaries, overtime, special pay, and fringe benefits (including pension and health care benefits.) The City Auditor would certify whether city leaders adhere to the annual labor cost cap.

The Mayor and the City Council would have to negotiate labor contracts and adopt budgets over the next five years that stay within the caps. The result would be more prudent decisions on the size of the city workforce, controls on salaries and overtime paid to city workers, and more affordable and rational employee benefit packages.

Most importantly, the Spending Cap would contain specific guidelines on how any surpluses could be spent:

- Up to 25% for additional infrastructure maintenance and repair projects
- Up to 25% for service restorations
- At least 50% for debt reduction or reserves

Charter Amendment: Pension Reform

The pension reform process outlined on the following page would be incorporated into the one or more ballot measures for imposition by the public on city government. By putting these reforms into a Charter Amendment, any sections of the Charter that may need modification for full implementation of the reforms can be harmonized with the reform package.

Charter Amendment: Infrastructure Reserve Fund

To restore an adequate funding stream to repair and maintain community infrastructure, as well as to provide greater enforcement of the labor cost spending cap, the measure requires that any revenues collected in excess of 2% each year for the next five years be allocated to core infrastructure projects. The measure should specifiy that the Mayor and Council give priority to repairs of roads, sidewalks, and public facilities in the selection of infrastructure projects to be funded from these revenues.

City's Status Quo Forecast

Status Quo ($ in millions)	FY 12	FY 13	FY 14	FY 15	FY 16
General Fund Spending Level	$1,154.2	$1,180.1	$1,204.6	$1,216.4	$ TBD
Defined Benefit Pension Payment	$200	$218	$235	$251	$ 267
General Fund Revenues	$1,081.8	$1,111.6	$1,134.7	$1,168.3	$ TBD
Projected General Fund Deficits	**$(72.4)**	**$(68.5)**	**$(69.9)**	**$(48.1)**	**$ TBD**

Proposed Five Year Recovery Plan

Element of Recovery Plan	FY 12	FY 13	FY 14	FY 15	FY 16
Baseline General Fund Spending Level	$1,154.2	$1,180.1	$1,204.6	$1,216.4	$TBD
Reorganization and Streamlining Savings	-$7.65	-$7.44	-$7.24	-$7.05	-$6.87
Managed Competition Savings	-$11.7 M	-$22.2 M	-$21.05 M	-$20.0 M	-$19.0 M
Full Reform Option on Retiree Health	-$21.47 M	-$24.80 M	-$28.23 M	-$31.56 M	-$18.8 M+
Other Reforms	-$43.31	-$53.32	-$76.14	-$88.47	-$46.02
Restoration of Public Safety	+$3M	+$6M	+$6M	+$7M	+$8M
Imposed General Fund Spending Cap	$1,070.0 M	$1,086.6 M	$1087.1 M	$1,117.0 M	$TBD
Baseline Defined Benefit Pension Payment	$200.0 M	$218.3 M	$235.3 M	$251.3 M	$266.6 M
Impact of "Pensionable Pay" Freeze	-$8.1	-$18.0	-$28.8	-$40.7	-$53.8
Impact of Streamlining/Managed Comp	-$ -	-$ -	-$.9	-$1.6	-$1.9
Impact of Opt-Out Programs	-$TBD	-$TBD	-$TBD	-$TBD	-$TBD
New Projected Pension Payment	$191.9 M	$199.4 M	$204.9 M	$229.0 M	$237.8 M
"Share-in-Savings" Fund for Employee Bonuses	NA	NA	NA	$20.4 M	$26.9
Net Take-Home Pay Increase from Opt Out Programs	TBD	TBD	TBD	TBD	TBD
Infrastructure Lock-Box Fund	NA	$8.16	$9.20	$20.29	$22.32
Projected General Fund Surplus	**$11.8**	**$15.14**	**$28.86**	**$25.44**	**$23.73***

*See Full Forecast for FY 2016 Detailed Adjustments
**Proposed surplus distribution framework:
- Up to 25% for additional infrastructure maintenance and repair projects
- Up to 25% for service restorations
- 50% for debt restructuring or reserves

Other Reforms Pending Approval

Element of Recovery Plan	FY 12	FY 13	FY 14	FY 15	FY 16
Substantially Equal Share on Investment Performance	$TBD	$TBD	$TBD	$TBD	$TBD
Impact of "Opt-Out" Pension Plan Vehicle	$TBD	$TBD	$TBD	$TBD	$TBD
Adjustment to Convention Center Debt Service	NA	NA	$0 to $9.2	$0 to $13.7	$0 to $13.7

Process For Reforming Pension Benefits ... For Existing Employees

Step 1: Establish Clear Pension Reform Target

Establish Hard Target to Reduce City Pension Costs
Assuming city labor costs are capped for five years, establish a target of 20% reduction in the taxpayer's cost for the city's annual defined benefit pension payment by FY 2016

Step 2: Reduce and Freeze "Pensionable Pay"

Salary Reduction and Reform of Special Pays
Reducing and freezing "pensionable pay" is a legal and powerful method to reducing the city's total pension debt and annual pension costs. Base salaries plus pensionable special pays should be reduced by 2 to 9% (depending on bargaining units), then frozen for the full five years of the recovery plan.

Adopt Total Net Compensation Model for Each Classification
Once base salaries are capped for the five year period, and in preparation for the "opt-out" pension reform plan, reform Charter Section 130 to adopt a "net compensation" model for city employee classifications. A total sum of compensation for each city classification would be provided, along with a standard "benefits allowance" that provides for all fringe benefits (including pension costs). Employees in the higher pension benefit level will see less take-home pay than employees in lower, more affordable pension benefit levels.

Step 3: Require Fair Share of Costs and Risks for Pensions

Mandate Substantially Equal Contributions by City Employees
Eliminate all offsets to city employee contributions and require maximum allowable cost to be charged to city employees for the cost of their pensions.

Examine Requiring City Employees to Share Equally in Pension Risks
Should the City Attorney's "substantially equal" case on sharing investment costs and risks be successful, examine requiring city employees to share equally in pension investment risks, losses, and benefits.

Step 4: Transition to Affordable Pension Plans

Create Defined Contribution Plan
Provide simple 401(k) plan to all new hires and offer existing employees the ability to "freeze" their current pension benefit levels by leaving the system and enrolling in the 401(k) plan immediately.

Offer Lower Tier Options
Provide hybrid defined benefit/defined contribution plans to new employees – allow existing employees to downgrade from higher tier to these lower tiers (pending IRS approval)

NOTE: The combined impact of implementing Step 2 and Step 3 will provide substantial incentives for city employees to migrate to these two alternative plans.

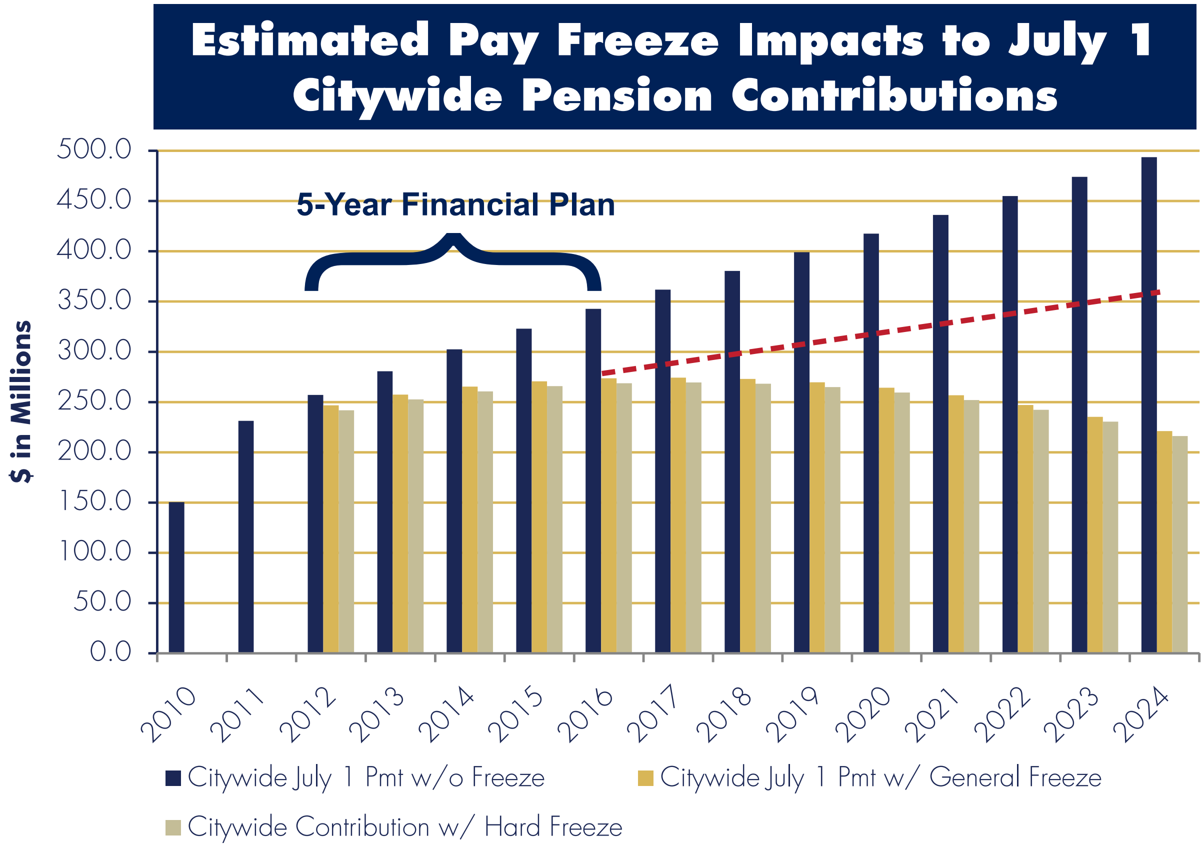
Step 5: Provide "Share-in-Savings" from Pension Reform

Provide "Share in Savings" Incentive Pool
Assuming that the 20% reduction in annual pension costs are achieved through the reforms above, city employees would share in the savings and would be eligible to receive "non-pensionable" payments to augment their take-home pay in FY 15 and FY 16. Establishment of rules for how the payouts would be distributed in a fair manner would be the subject of Meet and Confer with labor unions.

Alternative: Allow Labor Unions to Offer Settlement Plans

Conduct a Charter Section 143.1 Vote to Reduce Benefits for Existing Employees
To provide additional avenues to achieve the 20% reduction target established in Step 1 of this process, city labor unions can utilize Charter Section 143.1 as a vehicle for collective, across-the-board reductions in defined benefit pensions for all existing employees – reducing the cost and liability.

Impact of Recovery Plan on Annual Payment for Defined Pension Benefits



Additional Pension Savings Available

This chart only models the five year freeze on "pensionable pay" for city employees. Additional savings will be generated and payments will be lowered once the impact of the following two reforms are also implemented:

- Streamlining city government/Managed Competition
- Opt-Out Program of city employees leaving higher benefit tiers for lower benefit tiers

For more information on the cost savings associated with these two reforms, consult the section on Commitment 4: Comprehensive Pension Reform.

Actuarial Scoring of the Roadmap to Recovery

Councilmember DeMaio's office obtained the services of Sheffler Consulting Actuaries to model the financial impact on the city's pension debt and associated annual payment from the reforms contained in the Roadmap to Recovery. All source data was obtained from the official actuarial valuation provided by SDCERS for the period ending June 30, 2009.

FY 12 Budget Matrix

Proposed Budget Balancing Actions	Projected FY 2012 Savings ($ in millions)
Managed Competition	11.66
Landfill Franchise License	10.00
Retiree Health Reform	21.47
Pension (Pay Freeze)	8.10
Mayoral and Legislative Reductions	1.62
Mgmt Analyst/PIO Reductions	1.63
Arts & Culture Reductions	1.84
Contracts & Supplies Reduction	4.19
Eliminate Mgmt Leave and Mgmt Vehicle Allowance	0.05
Convention Center Debt Refuding	0.40
Eliminate Offsets	4.79
Eliminate Terminal Leave	0.12
Suspend Fire EMT Specialty Pay	4.83
Suspend Fire Mgt. Assignment Pay	0.72
Suspend Master Library Pay	0.26
Special Pay Reductions (MEA)	1.53
Risk Mgmt Audit Recommendations	0.25
City Council Pension Sub Equal Reform	0.05
Office of Mgmt & Budget Reorganization	1.62
2% General Salary Reductions (Estimated)	3.25
Redevelopment Repayment & Expense Transfer	3.01
Recovery Auditing & Audit Function Transfers	1.50
Expansion of Marketing & Strategic Partnerships	1.00
Office of Special Events Revenue from TMD	0.20
Mid-Year (One-time FY 2011 Savings)	3.10
Net Savings Subtotal	87.30
Public Safety Restorations	-3.00
Sub-Total	84.23
Projected Surplus/(Deficit)	**11.8**

Other FY 2012 Potential Savings
Pension - PSC Correction
Storm Water Unfunded Mandates
Revised SDCERS Contribution Rates

A ROADMAP TO Recovery

A Clear Mandate from the People

The defeat of Proposition D provides a clear and unmistakable mandate for reform.

San Diegans simply do not trust city government with more money.

Aside from the election results on Prop D, polling demonstrates the public has clear priorities for reforming city government:

Major Changes Sought: San Diegans are frustrated with a city government they see on the "wrong track." This suggests the need for major change in how city government operates – not incremental or marginal change.

Support for Core Services: The Independent Budget Analyst conducted a city-wide survey in the spring of 2010 that demonstrated support for "core" city services – with public safety and infrastructure repair and maintenance placing the highest among residents' priorities.

The evidence is overwhelming that residents do not want city leaders to continue to cut core service levels.

By withholding revenue and demanding same or improved services, San Diegans are suggesting a "third way" to improving city government can be found by reducing wasteful spending and improving cost efficiencies in how services are provided.

Pension Reform As Key: In open-ended questions, pension reform jumps to the top of the list of changes San Diegans want to see implemented.

San Diegans support raising retirement ages and requiring city employees to make fair and equal contributions for the cost of their pension benefits.

Competitive Bidding: Voters overwhelmingly approved Proposition C in 2006 – which expressed support for competitive bidding in city government.

San Diegans also are concerned by recent efforts by labor unions to "stack the deck" against fair and open competition. Not only have fair and open competition measures passed overwhelmingly in San Diego county this year, but polling shows San Diego residents are strongly supportive of competitive bidding as a vehicle to achieving cost efficiencies in city government.

Public Sentiment on City Government

2:1

The ratio of "Wrong Track" to "Right Track" sentiment regarding the direction of city government

72%

Public support for bold pension reforms to raise retirement age, require equal contributions between city employees and taxpayers.

78%

Public support for immediate implementation of fair and open competitive bidding

Source Polls: August 2010 Competitive Edge, March 2009 Mercury Consulting, August 2009 Competitive Edge

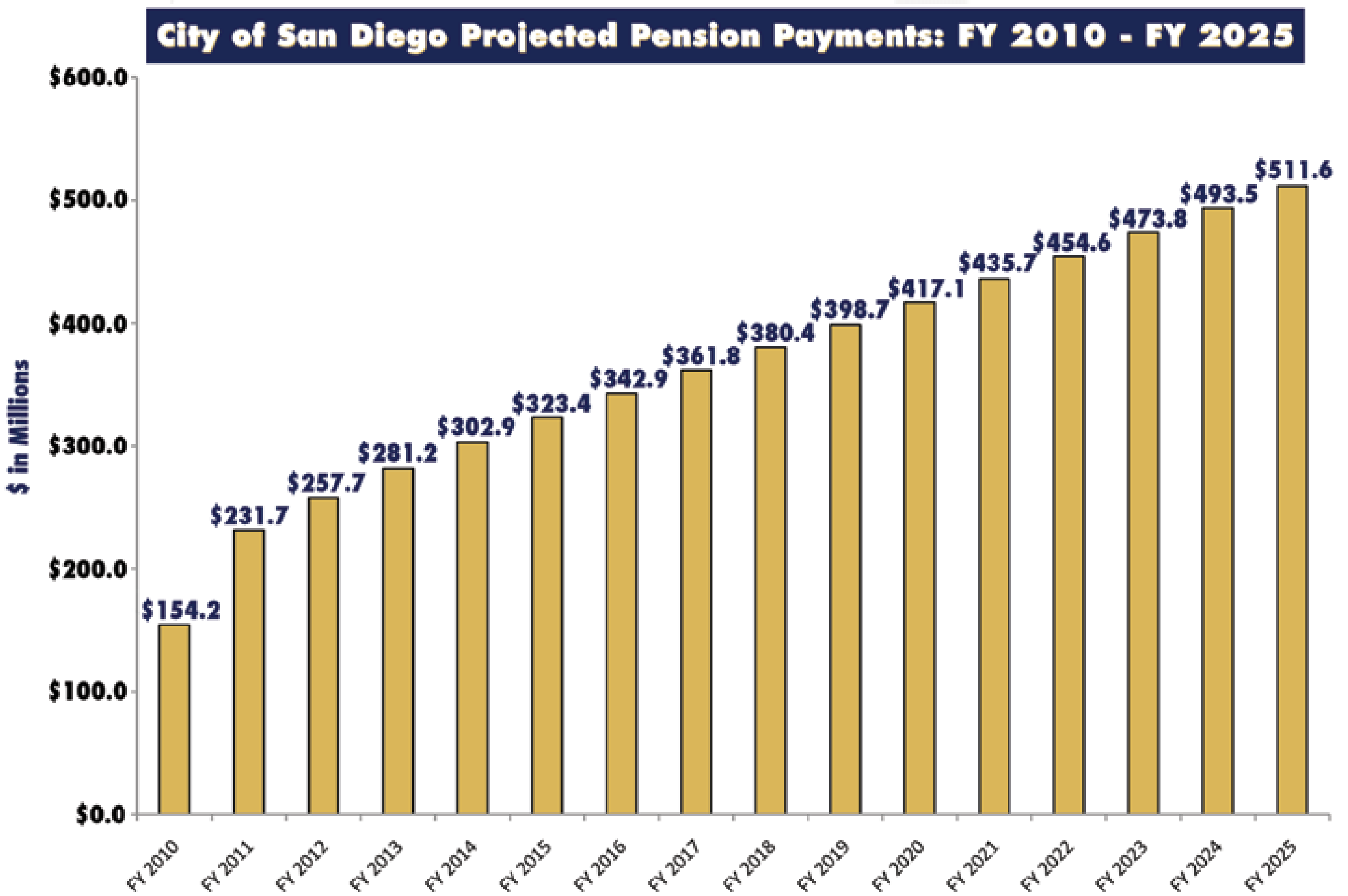
The message is clear: San Diegans want city government to cut expenses – starting with labor costs. Recent policies are patently out-of-step with these priorities.

Put simply, we cannot continue to ignore the call for reform from the public. This Roadmap to Recovery plan reflects public sentiment on what changes need to occur within our city government.

Pension Costs as Primary Driver for City's Financial Problems

Perhaps the most significant driver of the structural budget imbalance is the City's unsustainable pension liability. Put simply, until the city reforms its pension liability, no tax increase will be big enough - and no service cut will be deep enough - to satisfy the skyrocketing debt service on the city's pension system.

The city's defined benefit pension payment has climbed from $154 million last year to approximately $230 million this year. And it only gets worse. According to the pension system actuary, it will climb to $343 million in FY 2016 and spike to $511.6 million in FY 2025.



Note: Excludes other costs to taxpayers for city employee retirement benefits such as offsets, SPSP contributions, Preservation of Benefit Payments, Retiree Healthcare, etc.

As staggering as these numbers are, they do not represent the full cost of retirement benefits granted to city employees. In addition to this annual pension payment, the City of San Diego also has to fund the following costs for retirement benefits:

Preservation of Benefits Direct Payment: $1.5 Million

SPSP 401(k) Match: $6.3 Million

Offsets to Cover Employee Pension Contributions: $7.9 Million

Current ARC cost for Retiree Health Care: $120 Million (Note: the city continues to underfund this cost by only budgeting and paying $57 Million million annually – creating increased debt for future taxpayers)

When all costs for retirement benefits are totaled up in city government, they exceed $370 Million this year – or roughly $^2/_3$ of the city's entire payroll expense.

This cost structure cannot be sustained – and any organization with these excessive costs for retirement benefits would face bankruptcy in short order.

It is important to understand that the costs of servicing the City's pension debt are not going away any time soon because the debt is generally amortized over 15 years.

Comparing City Retirement Costs with Private Sector

66-68%

Percent of city payroll consumed by the cost of retirement benefits for city employees during this fiscal year

15-16%

Percent of payroll consumed by the cost of retirement benefits for typical non-profits and for-profit organizations

Source: Bureau of Labor Statistics

Unless the City takes significant actions to mitigate future payments on the unfunded pension liability, the growth rate of these payments is almost certain to outpace the growth rate of tax revenues.

The net result is that the City's pension obligations will continue to consume a greater share of General Fund resources in the coming years unless action is taken to mitigate the obligations.

As an example, under a "baseline," or status-quo scenario with all actuarial experience assumptions met, the UAL payment alone for July 1, 2012 is projected to grow by approximately 14%, year-over-year.

To put the magnitude of the pension problem in a more simple perspective, if General Fund revenues grow at a rate of 2% per year, Fiscal Year 2014 projects the City's defined benefit pension payment alone to consume more than 20% of General Fund revenue – one out of every 5 dollars.

Also, it is important to understand that the City's $230 million defined benefit pension payment is composed of $61.3 million of Normal Cost (27% of the payment.) By comparison, today's taxpayer is paying $168 million towards amortizing the unfunded pension liability, which is associated with work completed by City employees in past years (73% of the payment).

Pension debt is a real obligation of the City, and the need to pay down this debt annually will continue annually regardless of the levels of service provided by the City. As a result, it is important to focus on what can be done with the City's pension obligations to mitigate this debt payment to the extent possible.

A Closer Look at Unsustainable Pension Benefits

The primary reason why the City of San Diego's retirement costs are so much higher than the costs in the private sector and non-profit sector is due to the overly-generous nature of the benefits granted to city employees.

Councilmember DeMaio's office has already documented levels of pension payments being made to former city employees.

Getting Four Retirement Checks at Once: Some city retirees are able to receive four separate retirement benefits – including the defined benefit allowance, DROP annuity payments, SPSP 401(k)-style payouts, and preservation of benefits payouts.

Earning Almost Double in Retirement than While Working for the City: Several city retirees clearly earn considerably more in retirement than those currently working for the City of San Diego. In one case, the city's former head librarian receives $227,249 as an annual retirement allowance – versus the $139,680 budgeted amount for the current head librarian working for the city.

Six Figure Pension Payouts: Retirement system data shows a long list of city retirees earning six-figure pension payments – with the top pension payout hitting $299,103 – a figure that also does not include payouts under the SPSP retirement program.

Millions in Total Payouts: Pension reform expert Marcia Fritz has estimated the long-term payouts for the top pensioners in the City of San Diego – showing each is expected to receive between $5 million to $8 million in pension benefits. The top 10 pensioners combined are expected to receive a whopping $ 61 million dollars combined.

Million Dollar Lump-Sum Payouts: Several city retirees have accumulated million-dollar cash balances under the DROP program, which they can receive as a cash payout or as an annuity payment – all in addition to their annual six-figure pension allowances.

Shocking Facts on Pension Payouts

$2.2 Billion
The amount of unfunded pension debt in the City of San Diego

$1.3 Billion
The amount of unfunded debt for retiree health care

$227,249
The annual retirement allowance for a city librarian – plus a second undisclosed allowance. The current salary for this position is approximately $140,000

$6 Million
The estimated payout for this ex-librarian over the rest of her life

4
The number of separate retirement allowances the report finds some city employees receive.

$299,103
The top annual retirement allowance paid in CY2009 – plus a second undisclosed allowance.

31
The young age a city politician started drawing his pension

$61 Million
The estimated long-term payouts for the top 10 city pensioners

Generous Benefits for City Politicians: Additional data released from the pension system shows city politicians receiving retirement allowances at absurdly young ages. One ex-politician started receiving a pension check at age 35, another at age 39, while three others began collecting pension checks while in their forties. Several former city politicians are receiving, or in line to receive, taxpayer-funded salaries on top of their city pension.

City labor unions argue that most city retirees receive low benefits and there are only a few examples of excessive pension payouts as outlined above. However the argument they use has several flaws.

First, when unions are making those claims, they are using data includes retirees who are covered under more modest benefit packages that pre-dated the notorious Manager's Proposal 1 (1996) and Manager's Proposal 2 (2002). Those two agreements spiked benefits retroactively and have resulted in the lions-share of cost increases faced by city government.

Second, the unions exclude retirement allowances from the Deferred Retirement Option Plan (DROP) and the SPSP 401(k) program.

What does the typical general city employee receive?

The Mayor's office had the Mercer Company conduct an actuarial analysis of the pension plan for general members – demonstrating the typical city employee in that classification could receive 129% of their highest salary for life if they retired at age 67. It is important to point out that the Mercer Analysis did not include the value of DROP payments which would increase the total retirement benefits received by the city employee.

City of San Diego
General Members - Summary of Retirement Plan Design Alternatives

Defined Benefit Multiplier	
Age 67	2.80%
Age 65	2.80%
Age 62	2.65%
Age 60	2.55%
Age 55	2.50%
Defined Benefit Cap	**90%**
Years in Final Average Compensation	**1**
Defined Benefit Member Rate	**10.07%**
Defined Benefit Death and Disability Benefits	**SDCERS**
Defined Contribution City Rate	**6.05%**
Defined Contribution Member Rate	**6.05%**
Income Replacement Ratio	
Age at Hire for Illustrative Member	**35**
Retire at Age 67	
Defined Benefit	89.6%
Definted Contribution	39.9%
TOTAL	**129.5%**

Yes, Pension Reforms Can Be Implemented

The city's labor unions and even some city leaders continue to mistakenly claim that existing pension benefits are vested and cannot be reformed.

This is simply false.

Since taking office, Councilmember DeMaio has released a laundry list of pension reforms that fall into the following categories:

Reducing the pension costs through benefits reform (new hires and existing employees)

Reducing the pension debt through reforms that achieve actuarial savings (managed competition, salary freezes, reductions-in-force, etc.)

Achieving savings in other parts of employee compensation to pay down accrued pension liabilities, (increasing employee contributions, eliminating supplemental pension contributions, etc.),

Providing incentives and vehicles for current city employees to "opt out" of higher tier benefit levels to lower, more affordable benefit tiers.

Utilizing the Charter Section 143.1 vehicle for renegotiating and adjusting benefit levels across the board for current employees.

Our pension reform plan (detailed in Commitment 4 of this plan) would solve the city's pension crisis by utilizing all of these reforms in a coordinated and integrated manner.

Recent court victories by City Attorney Jan Goldsmith – and other pending court cases – provide optimism that several reforms to existing pension benefits can indeed be implemented.

Salary Freezes: The Mayor and City Council have the legal authority to decrease annual pension payments by freezing and/or reducing payroll costs.

Managed Competition and Streamlining: The Mayor and the City Council have the legal authority to implement reforms that will reduce pension payments by implementing Managed Competition and/or direct outsourcing, and other efforts to reduce the city's pensionable workforce.

Policy on Investment Gains/Losses: Sharing investment gains and losses with employees as called for by the City Charter could lower the City's pension payments ona go forward basis. At this time, it is unclear how and whether this substantially equal investment sharing will be shared, particularly as it pertains to the invest ment losses of the year ending June 30, 2009, which were -19.2%.

Adjusting the Actuarial Model for Investment Returns: The Mayor and City Council may have to consider a reduction in the actuarially assumed rate of return, making this assumption part of pension Plan documents for the Retirement Board to follow.

Opt-Out Pension Model: The Mayor and Council may soon have the ability to put in place an "Opt-Out" model similar to that being implemented in Orange County. One option is to transfer from high-benefit tier to a lower one. However, this requires a change to IRS rule 414(h). Another option is to exit the defined benefit plan all together and enroll in a defined contribution plan on a go forward basis.

Enforcing DROP Cost Neutrality: The Mayor and Council have altered DROP benefits through the imposition of labor contracts (specifically the FY 2010 Police and AFSCME Local 127 contracts) that have yet to be implemented. SDCERS maintains that a vote of the membership is required to enact this change, while the City maintains a vote is not necessary.

While this membership election was slated to take place in September, the election be stalled until a DROP "cost neutrality" study was completed.

Reforming Discretionary Benefits: In addition to the mayor and the City Council have the ability to eliminate other "discretionary" retirement benefits, such as retirement contribution offsets, reforming terminal leave, retiree healthcare and annual contributions to the duplicative Supplemental Pension Savings Program (SPSP).

Comprehensive Settlement Vehicle: Charter Section 143.1 calls for a vote of the SDCERS membership to approve changes to the retirement system. According to the SDCERS fiduciary counsel, this Charter section grants employees the ability to vote to alter benefits that are typically considered vested, meaning the employees actually have the ability to vote to approve reductions to their benefits.

This unique section of the City Charter creates an opportunity for the City to come to an agreement with its employees to vote to alter their benefits, and could be the enabling mechanism of a pension-workout plan that mimics a "buyout" program in the private sector. Employees could benefit by securing a reliable retirement that can be sustained by a financially solvent organization, while the City would win through structurally reducing its annual costs for employee retirements.

The numerical realities suggest, it is imperative that arriving at a permanent pension solution remain the first financial priority of the City.

Ending the Practice of Creating Generational Inequity ... For Taxpayers and City Employees

As part of our civic discussion on reforming city government, it is time to have a candid and fluid discussion of "Generational Inequity" that has developed due to the crisis in the city's pension system.

Generational inequity is the practice of passing current expenses on to future taxpayers – or punishing current taxpayers for the unfunded debt for service provided to previous taxpayers. Generational inequity must be stopped.

The City's pension system (and the skyrocketing costs for servicing pension debt) is not the only example of generational inequity. Other examples include practices such as chronically underfunding retiree health care liabilities and inadequately maintaining assets to the point where the City relies on borrowing to cover past underfunding of on-going maintenance.

Generational inequity does not only impact San Diego taxpayers as a whole, it also impacts our new and younger city employees. For example, newer and younger employees are negatively impacted because their opportunities for salary increases are hampered due to the financial burden created by the unfunded benefits currently associated with their colleagues with longer service tenures.

As part of our financial recovery, the importance of inserting fresh perspectives into the City's workforce and work processes cannot be understated. Permanently resolving financial obligations associated with the past service of employees will benefit younger and less experienced employees, many of whom have nothing to gain from some of the on-going disputes over benefit levels (e.g. retiree health care benefits).

Of interesting note, it should only be a matter of time before younger city employees realize the impact to their take-home pay and financial security from policies that the "old guard" is busy defending. A sustained education campaign on fiscal realities should be conducted within the city employee base that may result in a change in direction on the part of the labor unions.

The Roadmap to Recovery is designed to tackle the problem of Generational Inequity by restructuring the city's debt, reducing our obligations, and putting into place protections to prevent these practices from occurring in the future.

Borrowing from Bankruptcy... While Avoiding It

Given the gravity of the city's financial problems, some have proposed bankruptcy as the vehicle for reform. While we strongly disagree with this vehicle for fixing the city's problems, our office has incorporated some elements from a traditional bankruptcy proceeding into this Roadmap to Recovery Plan – achieving each without the stigma, expense, and uncertainty of a bankruptcy filing.

Focus on Core Services: Bankruptcy tests a company to determine if it can be profitable once it emerges from its reorganization. The concept of "profit" in city government is different. That's why this plan focuses on ensuring the city government will emerge from its reorganization fully capable of funding and managing quality services our neighborhoods require.

Cap Annual Operating Costs: We must end chronic annual budget deficits. By comprehensively reforming salaries and benefits – while rethinking organizational precesses and opening city services up to competition – this plan produces a city government with operating costs that are sustainable both short term and long term.

Reduction of Liabilities: Like a bankruptcy proceeding, this plan relies on restructuring and reducing our financial liabilities through legal methods – with reform of pension and retiree health care benefits as top priorities. By addressing the issue of chronic underfunding for neighborhood infrastructure, the Roadmap to Recovery also tackles a looming liability in this area.

Public Vote on Key Elements of the Plan: Most importantly, the Roadmap to Recovery puts the people – not an unelected judge -- in charge of reform. The Roadmap suggests that city leaders put reforms into an irrevocable contract imposed on city leaders by the public – by placing key reforms up for a public vote at the next available election.

The City of San Diego should not look to bankruptcy as the path to reform. We have all the options for fixing the city's financial and operational problems – but we must make the tough but necessary decisions to make change happen.

Legal Authority Exists to Achieve Reform

Achieving a financial recovery and cultural overhaul of city government is entirely possible. The Mayor and City Council have the legal authority to accomplish the reforms laid out in this Roadmap to Recovery. They must simply summon the political courage.

Our City Attorney has clearly indicated that when it comes to labor negotiations, city leaders have significant leverage, and can **impose** reforms with a simple 5-vote margin.

California Government Code Section 3500 – and Council Policy 300-06 – require that the city negotiate in good faith. However, the City's labor organizations refuse to partner with City leaders in efforts to fundamentally reform City government, **the City Council has the legal authority to declare an impasse and impose reforms.**

For some pension reforms, a vote under Charter Section 143.1 may be required. However, this Roadmap to Recovery provides for a back-up reform path should unions refuse to vote to implement those particular reforms.

The City of San Diego has the legal ability to reduce its structurally unsustainable financial obligations, embrace innovative service delivery methods and emerge as a financial solvent entity that consistently provides citizens with quality and reliable public services.

"As a general rule, the terms and conditions of public employment are governed by statute or ordinance rather than by contract, and employment benefits, including compensation, may be modified or reduced as long as the City complies with any applicable procedural requirements."

- See City Attorney Opinion Number 2010-1

"If no agreement is needed at an impasse meeting, impasses shall then be resolved by a determination of the City Council..."

- City Council Policy 300-06

Legal Basis for Pension Reform Options

Reform Item	Desired State	Legal Basis
End SPSP Pension Contributions[1]	Eliminate the mandatory employer match of 3%. Given that the defined benefit plan is so generous, SPSP is no longer legally required.	YES – SPSP is a discretionary term of employment and was eliminated for one labor union in waiver process.
Eliminate Subsidy for Politicians Pensions[2]	Remove language in the city's municipal code that caps the net amount charged to city politicians for their pensions. Allow the real cost to be charged annually.	YES – Contribution rates are not vested and if challenged, either a waiver process or reduction in base salary can achieve reform goal.
Eliminate Employee Pension Offsets[3]	The City Charter requires "substantially equal" contributions by taxpayers and city employees for "cost of normal retirements."	YES – Offsets are a discretionary term of employment and were eliminated for several labor unions already.
Enact Higher Contribution Rates[4]	City employees should pay their fair share for pension benefits – taxpayers should not have to "pick up" employee contributions in addition to employer contributions.	YES – Courts have determined that contribution rates can reformed without violating vested rights.
Adopt Net Compensation Cap for Each Job Classification[5]	To force city employees to chose between salary today or big benefit payouts in retirement, the city should cap total cost of compensation (salary and benefits) per city classification. Caps should be based on the cost of reformed pension tiers for new hires. If an employee receives more costly benefits, a corresponding reduction is made in base salary.	YES – Courts have determined that employers can adjust compensation packages. The city should adopt labor contracts that contain "net caps" on compensation costs per employee classification.
Create Opt-Out Program[6]	In concert with the reforms above to increase employee contributions for the true costs of their pension benefits, an opt-out program should be created to allow employees to switch to more affordable pension tiers. Saves both taxpayers and employees substantial funds.	PENDING – From a vesting perspective, there are no barriers to implementing this reform. However, the IRS must first sign-off on opt-out programs.
Achieve DROP Cost Neutrality[7]	Contrary to claims by city leaders that DROP has been "eliminated," the vast majority of employees can still receive DROP. If an employee enters DROP, the city should reduce salary to achieve cost neutrality for taxpayers.	YES – Courts have determined that DROP can be reformed without violating vested rights – it is a term of employment subject to offset and modification.
Create New Affordable Pension Tiers[8]	To reduce costs of pensions for new hires and provide lower tiers for the Opt-Out Program, several retirement options should be provided to employees.	YES – The City can legally change pension plans for new hires. Once in place, and in concert with other reforms, existing employees can then opt-into these lower-cost tiers.
Negotiated Global Settlement and Pension Reform[9]	Provide city labor unions with a settlement plan for approval using a reform mechanism contained in the City Charter. To get deal, provide incentives (no pay cuts; fund stability; more take-home pay with lower contribution rates) and action-forcing mechanism (pay cuts, layoffs, and/or long-term pay freezes)	PENDING – SDCERS counsel and other legal experts confirm that benefits for existing employees can collectively be reformed through a vote of Charter Section 143.1.
Long-Term Pay Freeze (or Cut)	Pension liability (and associated payouts per employee) are driven by salary increases. Absent reforms above, the city can implement pay cuts and/or 5-8 year salary freeze (including no STEP increases.)	YES – Courts have determined that employers can adjust compensation packages.

1 See full memo by Councilmember DeMaio on January 21, 2009.
2 See full memo by Councilmember DeMaio on August 29, 2010.
3 See full memo by Councilmember DeMaio on January 21, 2009.
4 See full memo by Councilmember DeMaio on December 4, 2009.
5 See outline of concepts by Councilmember DeMaio in August, 2009
6 See full memo by Councilmember DeMaio on December 4, 2009.
7 See full memo by Councilmember DeMaio on October 9, 2009.
8 See full memo by Councilmember DeMaio on December 4, 2009.
9 See full memo by Councilmember DeMaio on December 4, 2009..

A ROADMAP TO Recovery

FY 12 Actions and Long-Term Actions

Commitment 1: Accountability for Results

City government should hold all employees accountable for clear performance goals and continual improvement – and taxpayers should receive an annual "Performance Report Card" on city government.

The Roadmap for Recovery starts with a bold and proven program for improving the management and performance of city departments.

To achieve this commitment, our office proposes a "City Management Agenda" – a comprehensive and integrated set of management reform modeled after successful reforms implemented in other government entities – and best management practices from leading companies and organizations.

In the last 15 years, performance measurement has become a central tenant of "government for results." Calls for more transparency and accountability in corporate accounting have been echoed in the government sector as well. Performance measurement, strategic planning, succession planning, process re-engineering, and performance based budgeting are valuable tools in government reform. Governments that embrace these tools are transforming themselves into more effective, efficient, performance driven organizations.

To jumpstart innovation and change at City Hall, the City Management Agenda asks basic questions for each city department:

What are our goals and how do we measure success? (Performance Planning and Management)

What resources will we need to achieve the goals and what is the cost-per-unit of service? (Financial Management and Cost Accounting)

How much staffing is absolutely required to provide a city service and how can we recruit, retain, train and reward a high-performance workforce to provide that service? (Human Capital and Succession Planning)

How can the service be provided faster, better, and cheaper using new technologies, management techniques or work processes? (Process Redesign and Innovation)

What services can be enhanced or provided more efficiently and effectively through vendors, other government agencies, or community organizations? (Contracting and Partnerships)

The City Management Agenda fundamentally challenges the current service delivery models utilized within each city department. A willingness to embrace new ways of providing services and conducting business must be injected into the city bureaucracy.

To achieve that, we must change the organizational culture inside city departments. The City Management Agenda targets the current institutional tendency to revert to "the ways things have always been done." More importantly, our city government must be measured on its results.

FY 2012 Changes

Reform 1.1: Develop Department Strategic Plans and Performance Measures

Performance measurement reporting on service levels has been suspended in the City budget process. The city has made major changes in its budget and operations – without fully understanding the net impact to service level results for taxpayers.

By the beginning of FY 12, each city department should submit a strategic plan to guide its efforts over the next four years – with specific, measureable and accountable performance goals and measures for evaluating results in FY 12.

Because it is imperative that the plan reflect public input, each city department should hold at least one "Performance Summit" in the spring to seek feedback from employees, customers, and stakeholders on priorities, new approaches to operating, and ways to measure and report success.

The strategic plan should articulate a clear vision for what the department will look like in four years – and how the department will restructure its operations to achieve that outcome. Each department should select no more than 5-7 performance measures – with 2-3 reflecting core outcomes for San Diegans and 3-4 reflecting "transformational" measures relating to improved efficiency, timeliness, quality, or other operational improvements in delivering its services.

To institutionalize this practice, our office proposes the establishment of a Performance Planning and Management Ordinance (PPMO) – establishing a step-by-step process for strategic planning, performance measurement, and performance reporting inside city government.

(See Appendix 3 for the full text of the proposed ordinance.)

Reform 1.2: Require "Performance Contracts" with All Department Managers

Each department's top manager should sign an annual performance contract with performance goals and measures driven by the department's strategic plan. This performance contract should be submitted to the Mayor and should be posted and updated publicly on each department's website.

Reform 1.3: Review of Implementation of Enterprise Resource Planning (ERP) System – Initiate Full Cost Accounting for Major Services

The City of San Diego is in the middle of implementing a costly Enterprise Resource Planning (ERP) System. The goal of the system is to improve the quality, timeliness, and usefulness of financial information inside each city department.

While our office supports implementation of these kinds of systems, it remains to be seen whether this system is being properly implemented. City staff reports that the implementation is progressing, but we propose that the audit committee evaluates progress implementation independently. (See Memorandum dated November 3, 2010.)

Organizations that measure their costs can manage their costs. The ERP system has the potential to support full cost accounting on a "cost-per-unit" basis of service. Full cost accounting lays the groundwork for eventual implementation of "performance-based budgeting" in city departments.

To jumpstart full cost accounting, recommend releasing full cost accounting studies on the top 10 city service areas in FY 2012 – with expansion of services undergoing full cost accounting calculations thereafter.

Reform 1.4: Create a City "Office of Management and Budget"

The five elements of the City Management Agenda require integration and coordination. Councilmember DeMaio has long proposed the creation of a single "Office of Management and Budget" to consolidate and coordinate the various management functions of the city. Such a move would not only improve management capabilities, but achieve cost savings as well.

The OMB would be headed by a consolidated Chief Performance Management Officer – reflecting a consolidation of the current Chief Financial Officer position and the Assistant Chief Operating Officer position. The following functions would be housed within the OMB:

Budget and Performance Management (Merged function of Financial Management, Business Office, and management analyst currently located in individual city departments)

Financial Management (Merged function of Comptroller's Office and City Treasurer)

Human Resources and Labor Relations

Information Technology (OneSD and Information Technology)

Contracting and Competitive Sourcing (a merged office of Purchasing/Contracting and a portion of the Business Office)

In addition to integrating the functions comprising the City Management Agenda, the OMB would house the following support functions that serve all city departments:

Risk Management

City Asset Management (Assumes Fleet and Facilities Management functions are outsourced)

Debt Management

A number of other important changes would be made in the consolidation of these support functions and the creation of an integrated management office:

Expanded Project Management Capacities: The current City Business Office would be folded into the new OMB. To equip the OMB with internal resources to lead large-scale change management projects, we propose the creation of an unclassified position of "Project Management Leader" to allow the city to hire individuals with advanced project management (PMP) certification.

Drawing on support from impacted departments, these individuals would work on priority projects – starting first with the Managed Competitions outlined in Commitment #6 of this Roadmap to Recovery.

Reduction in Administration Office: The current Administration Office contains functions that – in the middle of a fiscal crisis – should be curtailed. Functions relating to EMS contract management and Equal Opportunity Contracting would be transferred to the Contracting and Competition directorate in the new OMB.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
NA	Addition of Project Management Leader Positions	+2	-$400,000
City Treasurer	Executive Assistant	-1	$61,216
Administration	Elimination with exception of EMS Coordinator and 4 Equal Opportunity Contracting staff to Contracting Office; transfer Citizens' Assistance function to City Council	-13.47	$1,500,000
Business Office	Elimination of .5 Executive Secretary; one program manager, one management analyst	-2.5	$209,467
Office of the Assistant COO	Elimination of entire office	-1	$246,026

Reform 1.5: Consolidate "Management Analysts"

The creation of the OMB model also provides an opportunity to improve how budgets are formulated. We propose centralizing the development of the Proposed and Annual budgets, quarterly budget monitoring, and development and reporting of performance goals and measures into the new OMB's "Budget and Performance Management" directorate.

As it is structured currently, a substantial amount of duplication occurs between budget analysts currently located in the Financial Management Office and management analysts located within each individual department.

Currently, the Financial Management department provides fiscal services to the Mayor and serves as an internal fiscal consultant to other City departments.[1] The responsibilities of Financial Management include preparing the proposed and annual budgets and monitoring the City's Expenditures and revenue receipts.

The Financial Management Department includes 1.00 Department Director, 3.00 Financial Operations Managers, 4.00 Supervising Budget Development Analysts, 8.00 Senior Budget Development Analyst, and 12.00 Associate Management Analysts.

In addition to the Budget Development Analysts in the Financial Management Department, the City has 229.45 Management Analysts budgeted in various City Departments.

These Management Analysts provide many types of analytical services for the department management to which they report. A significant portion of that analytical service involves the development of the Proposed and Annual budget for their respective department submit to the Financial Management Department, plus monitoring department expenditures throughout the fiscal year. In addition, some do conduct work on performance measures and reports – albeit on an ad-hoc basis.

With the recent implementation of the OneSD system, where both the Financial Management Department and Department Analysts have access to the same information, the current monitoring process has significant redundancies.

This consolidation would require a culture change. The Budget Development Analysts in the Financial Management Department would be required to expand their current role of "reviewing" information submitted by departments to working with department managers to develop their budgets and monitor expenditures throughout the fiscal year.

While we acknowledge this consolidation could result in an increased workload for the management analysts remaining in individual departments, we believe this increase in workload is acceptable given the City's current financial situation. For Fiscal Year 2012 we would suggest emphasizing consolidation of small and midsized departments in the General Fund, while continuing to focus on the larger departments such as Police, Fire-Rescue and Non-General Fund departments in the future.

As a result of this consolidation, we believe that a permanent reduction target of 20.00 department analysts could produce a savings of $1.5 million to the General Fund.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City-Wide	Reduction of Management Analysts	-20	$1,496,220

Reform 1.6: Reduce Press Aides and Public Information Officers

The City currently has a total of 19 press and public relations staff by designation. Additional staff and contractors are also involved in public affairs.

The Mayor currently has 1.00 Director of Communications, 2.00 Deputy Press Secretaries (1.00 on recent leave of absence working for the Proposition D campaign), and 1.00 Press Assistant handling inquires from the press, overall message and dissemination of information originating from the Office of the Mayor.

In addition to these press officers, the City has budgeted 15.00 Public Information Officers in various departments who handle inquires related to the specific department in which they are budgeted.

With the exception of police and fire, we propose centralizing the City's public information services – and consolidating them under the Office of Community and Legislative Services. Enterprise funds would enter into a "Service Level Agreement" for the reimbursement of expenses for this office.

[1] See FY 2011 Adopted Budget

In addition to saving money, this reorganization will enhance how the city communicates with the media and the public.

(NOTE: As part of the Roadmap to Recovery's city-wide target of reducing contracts for services, a close examination should be made on all public-relations/outreach contracts the city currently has in place.)

Departmental Budget	Line Item	FTE Impact	General Fund Savings
Office of Mayor	Elimination of Deputy Press Secretary	NA	(Not scored – included in Mayoral-Council reductions)
Stormwater	Elimination of one PIO	-1	$59,299
Library	Elimination of one PIO	-1	$78,351

Reform 1.7: Enhance Employee Performance Reviews; Eliminate "Last Hired, First Fired" Policy in Labor Contracts

As the City of San Diego makes reductions in staffing, it is important that staff retention decisions are made based on performance, not tenure. In some cases, the current policy of "last hired, first fired" allows poorer-performing staff members to "bump" higher performance staff members during downsizing.

In addition, a system of full "Employee Performance Management" should be implemented to serve as a basis for all bonuses and promotions. Currently city employees receive "STEP" increases based on longevity, not performance. That must change. Clear performance goals and measures for each city employee should be established – drawn from departmental goals and measures. All rewards – including non-financial rewards such as discretionary leave – should be based strictly on performance.

As part of labor negotiations in FY 12 and FY 13 these reforms should be enacted.

*Note: Achieving full implementation of this reform may require modification of the City Charter.

Reform 1.8: Implement Recovery Auditing Program

City government processes millions annually in accounts payable. Some of the accounts payable over-charge the city government. Recovery auditing is the post-payment review of accounts payable with the goal of identifying overpayments and recovering funds. In the private sector the use of recovery auditing programs is widespread – and increasingly government agencies are adopting this auditing program.

By the beginning of FY 2012, the City of San Diego should partner with an outside firm to implement recovery auditing on its top 10 payable categories (including information technology, health care, communications, utilities, real estate, etc.)

Departmental Budget	Line Item	FTE Impact	General Fund Savings
Comptroller	Expected revenues from recovery auditing	NA	$500,000

Reform 1.9: Expand Revenue Audits

Currently accounts receivables are managed by the City Treasurer with only limited auditing on revenues received. Councilmember DeMaio has pushed a proposal to authorize the City Auditor to perform more robust and expansive audits on the city's major revenue sources to ensure the city government is receiving its fair share.

Expanding revenue audits under the City Auditor's direction will achieve efficiencies in operations, and result in increased revenue collections from accounts through more aggressive auditing techniques and an independent approach to reviewing receivables.

While the City Treasurer will retain custody of records on accounts receivables per the City Charter, the Auditor can be sub-contracted from the Treasurers' Office to perform this function.

The Mayor and City Council should implement recommendations contained in October 2010 audit of the Delinquent Accounts Program which suggested additional revenues could be achieved from expanded collection efforts and techniques focused on past due receivables.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City Auditor	Expected collections from revenue account audits handled by City Auditor	NA	$1,000,000

Reform 1.10: Post City Performance Measures Online – Publish Annual Performance Report Card

City taxpayers deserve to know what service levels they receive for their tax dollars. That's why each department should post their performance goals, measures and targets online at the beginning of the fiscal year – and provide a quarterly update on measured results where practical.

At the end of the fiscal year, all performance measures should be reported – comparing targets to actual results. For any target not met, departments
should also provide explanation of how the department will improve its performance in the coming fiscal year.

Long-Term Changes

Reform 1.11: Complete Performance Audits on 50% of City Budget Expenditures by FY 2013

Performance Audits examine how well each city department is operating, and suggest ideas for improvement. The City Auditor has provided decision-makers with detailed performance audits of the operations of a variety of city functions – including Risk Management, Qualcomm Stadium, Bid-to-Goal and the Center City Development Corporation. As a result, officials are better informed about inefficiencies and areas where additional controls are needed.

In the FY 2010 Councilmember DeMaio successfully advanced a proposal to expand the capacity of the City Auditor's Office to conduct performance audits of city departments – and to establish a goal of conducting performance audits on at least 50% of city budgeted expenditures in the next three years.

As those performance audits are conducted, the Mayor and City Council should commit to implementing cost-saving ideas as fast as possible.

Reform 1.12: Examine Opportunities for "De-Layering" of Middle Management Positions

Multiple layers of management exist within city departments that should be reviewed. Several city labor unions have raised the issue – providing for potential agreement on cost saving ideas. As agency strategic plans are developed, and as the Office of Human Resources begins work on Succession Planning, an analysis of levels and layers of management should be conducted in each city department with a goal of reducing layers – and redeploying as many city employees to front line service delivery.

Reform 1.13: Implement Improved Fleet Tracking Technologies

The City recently implemented a pilot program using GPS technology on a select number of city vehicles. The pilot project revealed ways to achieve taxpayer savings using improved fuel management, employee productivity, and vehicle utilization. Using this pilot as a starting point, city staff should report back how use of these and other technologies and analysis in all of the city's fleets can improve management and efficiencies.

Reform 1.14: Consolidate Personnel Department with Human Resources Department

The City Charter has established a duplicative Personnel Department under the Civil Service Commission. Since city employees are unionized, consideration should be given to make the Civil Service Commission a purely advisory body with oversight over personnel practices – and permit the Personnel Department to be consolidated into the Office of Human Resources. Implementing these changes would require a Charter Amendment.

Reform 1.15 Improve Employee Training Programs

In order to improve efficiency and performance, and to bolster staff morale, the City of San Diego must do much more to train city employees in new management techniques. A new leadership and management academy was recently launched for managers and supervisors in the Utilities Department. This program can be cost-effectively expanded to include managers and supervisors from other city departments.

The following core training programs should be offered as part of a "Performance Management" curriculum:

- Project Management
- Strategic Planning and Performance Measurement
- Change Management
- Team Leadership and Communication
- Customer Service Fundamentals

Many of these topics can be deployed using online training programs. Training should target managers and supervisors first, with line employees provided training based on their demonstrated commitment to improved performance in their current jobs and documented potential for advancement.

Reform 1.16: Adopt Performance-based Budgeting Ordinance

Cities and counties across the country have embraced the concept of "performance budgeting" whereby the budget process begins with the definition of performance results and the executive and legislature work to align available resources with those results. Once a budget is adopted the executive branch is given flexibility to manage resources throughout the year—provided that those results are achieved. Enhanced performance measures would be put in place to help define results and track results throughout the year in a transparent way—to the legislature as well as to the general public.

Once the strategic plans, performance measures and full cost accounting systems are implemented, the City Council should reform the city's budget process to require that the Mayor submit an annual performance plan to the City Council no later than January 15 of each year that includes measurable outcome goals and measures for each city department. A listing of major services by program area in each department—complete with workload/output measures—should also be included.

No later than February 1, the City Council shall adopt a performance plan by resolution and the Mayor shall prepare and submit a budget that reflects the resources required to each the level of performance expected from each city department. As decisions are made on resources throughout the budget process, the Mayor shall advise the City Council on the impact on performance expectations for each city department. All changes in performance measures and targets shall be included in the annual budget ordinance passed by the City Council.

NOTE: Additional reforms related to contracting and competitive sourcing are dealt with in the section of this plan relating to Commitment 6 "Fair and Open Competitive Sourcing."

Reform 1.17: Improved Risk Management and Public Liability Savings

The Risk Management Department is responsible for the investigation and settlement of all claims against the city for losses by the public (accidents on city property, improper towing by police department, flooding from broken water pipes, etc.)

Claims against the City cost taxpayers approximately $29 million annually. The City Auditor recently identified ways to improve the city's risk management strategies to achieve $800,000 in annual savings city-wide.

Among the findings of the Audit report released in August 2010:

> *"During our audit, we found that Risk Management does not analyze systematic risks or follow Enterprise Risk Management system methodologies or other enhancing practices, nor does it maintain documented processes…We also noted that the City does not have a formalized and documented standardized claim reserving approach, which can result in inconsistent reserving practices….Moreover, we found that the review and analysis of the cost and adequacy of insurance coverage and limits is informal and not documented. As a result, the City risks purchasing unnecessary or insufficient insurance coverage and paying excessive effectively and efficiently…"*

We believe that the Risk Management Department should aggressively implement the 23 recommendations outlined in the Auditor's report.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
Risk Management & Public Liability Fund	Savings from implementation of Audit recommendations	TBD	$250,000

Then Vs. Now

City of San Diego, FY 2001 Budget [2]

"An important pillar in becoming the 'First Great City of the 21st Century' is the commitment to implement a continuous, systematic process for evaluating the quality and cost of services and products delivered by the City and comparing them with private and public industry leaders."

City of San Diego, 2010:

Performance measures on service levels have been **suspended** by the Mayor's Office.

The city does report out **full cost accounting** for its top 10 service lines.

Managed competition – a vehicle to compare costs between the city and outside providers -- still has **yet** to be implemented.

[2] City of San Diego, CA, Final Fiscal Year 2001 Budget (San Diego, 2001), p. 311.

Commitment 2: Open Government

San Diegans deserve a city government that conducts all business in an open and transparent manner.

"Open Government" means that the public has a right to know what is going on inside city government – and has a right to play a role in the decision-making process.

It also means accessible government. The city should embrace technology and customer service innovations that make it easier for taxpayers to access city services – and provide feedback where improvements are needed.

Councilmember DeMaio has set a goal of making San Diego city government the most open and transparent city government in the country.

These proposed reforms are key steps to rebuilding public trust and confidence in local government.

FY 2012 Changes

Reform 2.1: Post All City Compensation and Labor Contracts Online

Budgeted salaries contained in the annual budget are only a fraction of the total compensation paid to city employees. To provide full disclosure on these matters, the city should publish the total compensation for every classification in city government, providing a range of base salary and maximum specialty pays available for each classification to display a potential maximum "base."

Additionally, the city should post online the actual earnings of city positions – with names redacted – for the preceding fiscal year.

Finally, all current labor contracts should be posted online in a readily accessible fashion – along with the last 3 iterations of the labor contract to allow for easy comparison.

This transparency will allow taxpayers to determine whether excessive compensation continues in city government, and better understand the intricacies of city labor costs.

Reform 2.2: Post All City Contracts Online

The city has entered into more than $200 million in city contracts – and taxpayers deserve to know who is receiving these contracts and under what pricing, terms, and work requirements. We propose that all city contracts in excess of $25,000 be posted online on the city's website, and any contractor that has received in excess of $25,000 cumulatively from the city also be posted with links to all contracts awarded to that contractor. Simply putting a list of the contracts is not enough - the full text of the scope of work and contract terms should be posted for each contract.

Reform 2.3: Request Monthly Public Comment and Question Session with the Mayor

Under the Strong Mayor-Strong Council form of governance the Mayor no longer chairs, nor regularly attends, City Council meetings. It could be argued that the public has limited access or opportunity to bring their issues directly before the Mayor, as they did under the Manager-Council form of government.

We propose amending the Permanent Rules of Council to include a monthly 30 minute "Question and Comment" Session with the Mayor for members of the public.

Reform 2.4: Expand Access to the City Council Docket

Under the current Permanent Rules of the City Council, it takes four Councilmembers to place an item on the docket if the Council President does not wish to have it docketed.

In a truly open government, access to the City Council docket is a fundamental right of every city councilmember. Docket access allows a councilmember to put a legislative idea before the full council for open discussion in public and a call for a recorded vote.

As one of its first acts after the December 6th's inauguration ceremony, the new City Council should amend its Permanent Rules to allow an item to be placed on the Council docket upon request of two City Council members.

Long-Term Changes

Reform 2.5: Consolidate All Call Centers in City Government for One-Stop Service – and One "311" Number

We believe that one "311" call number is a common-sense vehicle to improve customer service and reduce call center costs in the city.

The Enterprise Resource Planning (ERP) system has a customer service module that is currently being piloted by the Utilities Department. Once implemented this system can integrate customer information across city departments – e.g. an individual calling in to pay a water bill can be reminded that an outstanding parking ticket is also due.

Using ERP as a vehicle, and adding on a project management "ticket" system, we propose consolidating all city call centers within two years into a single "Citizen Service Center" for taxpayers to request services or transact business with the city.

Reform 2.6: Post City Checkbook Online

Once the ERP system is fully operational, the City should explore placing its external financial transaction online in a searchable format. Doing so would give taxpayers access to a virtual checkbook of the city government – increasing oversight and transparency.

Reform 2.7: Achieve Online Access to 95% of Transactions Between City and the Public By FY 2015

The City of San Diego should embrace e-commerce by committing to providing online access to 95% of transactions online in the next three years. Transitioning to online service delivery for these activities not only improves service to the public, but generates cost savings inside city departments.

This goal expands one of our proposals to commit to 95% of transactions with small businesses online during the same time period.

Some efforts are already underway. For example, the Police Department is currently working to create an application which allows businesses to apply, renew, and pay for alarm systems permits online. The Police Department has indicated that the reduced burden of permitting paperwork will save the department "significant time and money."

Other cities, such as New York City and City of Louisville, Kentucky, have made strides in improving the availability of information and resources for small business owners. Efforts in these cities have included the creation of "one-stop" resources for small business owners that allow users to meet all federal, state, and local requirements through a single point of contact.

NYC Business Express (New York City's one-stop resource), consolidates all relevant business compliance information into a single location. The NYC Business Express Wizard additionally provides automated individualized information and assistance and the ability to apply for permits online.

To jumpstart implementation of this reform, the City should explore public-private partnership opportunities to institute a pilot program to develop an online "one-stop" business resource similar to the NYC Business Express Wizard. The program would assist business owners with less-complicated projects and use phone and appointment services as a supplement for more complicated matters.

The program could be instituted in phases, considering only a subset of permit types, regulations, and industries with each phase. New York City started the wizard at first to only include the restaurant industry, and has worked its way up to providing this service to about twenty different sectors since 2006.

Commitment 3: Back to Basics ... Clean and Safe Neighborhoods

City employees should receive a reliable retirement allowance that is no better and no worse than the average San Diego taxpayer – and city employees should pay a fair share of the costs of these benefits.

Our efforts to reorganize city government should not only be judged from a financial perspective, but also evaluated by the extent to which services to our neighborhoods are improved.

Simply pouring more money into the city's existing processes for delivering neighborhood services is inadequate. We must also fundamentally rethink what kinds of neighborhood services to provide, and how to provide them.

By focusing limited financial resources on core neighborhood services – Response Times, Roads, and Recreation – our office believes that the City can succeed under this criteria. The Roadmap to Recovery emphasizes front-line neighborhood services such as Police, Fire, branch Libraries, Neighborhood Code Compliance, and Park and Recreation Programs.

An example of applying a fresh approach to service delivery can be found in the City's library system: technological advancements provide opportunities to redefine how library services are provided.

While we believe in providing a strong system of branch libraries, we also see opportunities to expand the use of technology at each branch to improve service and enhance the role of branch libraries in our communities.

Similarly the work done by the Fire Department has changed significantly in the past 25 years – with far more emphasis on a daily basis on emergency medical calls vs. fire calls. As a result, our office sees a need to evaluate our current service delivery model to determine if more efficient ways of deploying a mix of resources dedicated to daily fire calls versus daily emergency medical calls exist.

Thoughtfully examining our current service models with a willingness to consider new ideas may allow the City to improve core service delivery, but it requires that the assumption that "the way it's always been done" be set aside in the city bureaucracy.

FY 2012 Changes

Reform 3.1: Restore 3 Priority Fire Stations that Have Been Browned Out

As an immediate measure the Roadmap to Recovery proposes to increase Fire Department funding by $3 million for FY 2012. During a presentation to the City Council's Public Safety and Neighborhood Services Committee (PS&NS) on April 7, 2010, the Fire Chief indicated that he had a significant concern with several areas that he felt were particularly "underserved." The Chief elaborated that, "If I could get three [reinstated units], I would put them in those communities where I am really having a hard time now." The Chief identified Rancho Penasquitos, Mira Mesa, Pacific Beach and University City as having the greatest need.

Instead of restoring fire engines, it is possible that a more cost-effective use of the $3 million would be to use this funding to deploy an ambulance at these stations. (For a more expansive explanation on the importance of ambulance services, please see Reform 3.5 in this section.)

Departmental Budget	Line Item	FTE Impact	General Fund Savings
Fire Department	Emergency staffing to restore browned-out fire stations	NA	-$3,000,000

Reform 3.2 Utilize Marketing Partnership Revenues to Safeguard Lifeguard Services

Earlier this year, my office released a white paper entitled "Generating Revenue by Expanding the City's Marketing Partnerships," which extensively covered the revenues available to the City from expanding its efforts with marketing partnerships and strategic, off-site advertising.

Based on the findings of this report and discussions at the Budget and Finance Committee, we believe an additional $1 million in revenue can be raised for FY 2012 by expanding the City's strategic and marketing partnerships. The initial expansion of the Marketing Partnerships that is currently being considered would take place at the City's beach areas. In light of this, we believe that the expanded Marketing/Strategic Partnership revenues generated in FY 2012 should be allocated to protecting cuts to lifeguard services in those beach areas.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
Strategic Partnership Revenue	Expanded Partnerships	NA	$1,000,000

Reform 3.3 Temporarily Reduce Funding for Non-Core Programs – To Safeguard Core Neighborhood Services

In the middle of a financial crisis, the City must make tough decisions and prioritize. The city has several programs that are worthy, but not core services. As such, until cost savings related to many of the long-term reforms in this Roadmap to Recovery can be implemented, some temporary suspensions of funding and programs will be necessary…particularly if core neighborhood services such as police and fire are to be maintained.

Reduction in Arts and Culture

The City of San Diego Commission for Arts and Culture is responsible for making all recommendations pertaining to arts and culture for City funding through its two significant allocation programs. The two allocation programs, Organizational Support Program (OSP) and Creative Communities San Diego (CCSD), support 111 non-profit organizations. The Fiscal Year 2011 Annual Budget includes $6.2 million for the OSP and CCSD, $832,680 for Arts and Culture Program Administration, and $220,000 for Mayor/Council Allocations.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
Special Promotional Programs	Reduction of 25% in City Arts and Culture Grants	NA	$1,509,145
Arts and Culture Commission Staffing	Reduction of staff to one Executive Director and Administrative Aide 2	-4	$330,017

Funding for these programs comes from the Transient Occupancy Tax (TOT), a tax levied on individuals who stay overnight in the city's hotels, motels and other lodging establishments. Municipal Code Sections 35.0128 – 35.0133 and Council Policy 100-03 govern the use of these taxes to promote the city, including support for San Diego's arts and culture programs and services.

Importantly, Municipal Code Section 35.0128 Subsection A that states:

> "Two-thirds (2/3) of all revenues collected by the City and remaining after payment of one-sixth (1/6) of the costs incurred in the administration of Chapter 3, Article 5, Division 1 shall be deposited in the Transient Occupancy Tax Fund and used solely for the purpose of promoting the City. ***However, if the City Manager determines that anticipated revenues in any fiscal year will be insufficient to maintain existing City***

> ***Services, the City Manager may ask the City Council to temporarily suspend compliance with this subsection (a) for the upcoming fiscal year. A majority vote of the City Council can temporarily suspend compliance with this subsection (a) for that fiscal year.*** "

Given the City's $72 million budget deficit and the public's clear concern over public safety cuts, we believe that the necessary determination can be made by the Mayor and City Council.

As a result, we propose a 25% reduction to city Arts and Culture grants ($6.2 million) and the reorganization of the administration of this grant program.

However, our office proposes that the current approach is reformed to focus on fewer, but larger awards that are geared toward attaining specific outcomes rather than spreading out a larger quantity of smaller fund amounts. This would resemble the model utilized by the City's Tourism Marketing District (TMD) and the process awarding Community Development Block Grants.

Finally, as the City moves forward in revamping its Arts & Culture award process, the current staffing model should be examined for potential efficiencies as well. IF CBDG and TMD grants can be given out with fewer staff, so should Arts and Culture funding.

Recognizing that these proposed reductions to the non-profit organizations can be difficult, the City's immediate financial situation necessitates these cuts. As additional structural reforms are implemented, the City may be able to consider restoring some of this funding.

Alternate funding may be available to these organizations using the CDBG and TMD process.

Reduction of Storm Water
We recommend a consideration of a reduction to the Storm Water Department for FY 2012. While the issue of reducing contract authorizations for the Storm Water Department has been discussed at some length at the Natural Resources & Culture Committee, we attribute Storm Water Budget cuts in part to ongoing efforts by the City and other "co-permittees" of the municipal storm water permit to receive compensation from the State for unfunded mandates.

(A full report on this issue is provided as an appendix to this report.)

Departmental Budget	Line Item	FTE Impact	General Fund Savings
Storm Water	Department Budget	TBD	TBD

Reform 3.4 Complete Performance Audit of San Diego Medical Services Enterprise
Emergency Medical Services in the City of San Diego are provided through a partnership of the City's Fire-Rescue Department and San Diego Medical Services Enterprise (SDMSE). SDMSE provides ambulance services for the City of San Diego and in return has the authority to charge individual users for their service. As SDMSE is able to recover full costs through user chargers, ambulance services are provided without subsidization from the City.

We also strongly support a comprehensive performance audit of the SDMSE function of the city to ensure that proper management and financial gain-sharing is occurring under our partnership with Rural-Metro. This performance audit may provide recommendations on ways taxpayers can achieve greater cost savings and financial benefits from this partnership. The Mayor and City Council should be ready to aggressively implement recommendations from the performance audit upon its completion.

Reform 3.5 Form Task Force on Public Safety Service Delivery and Staffing Optimization

The Mayor and City Council should form a task force comprised of outside experts to critically and comprehensively look at the current staffing models and service process utilized in the Fire/Rescue Department and the Police Department.

For example, cities and counties across the country have addressed the ramifications of rising EMS demand by reducing use of fire engines for EMS and shifting additional resources to dedicated EMS provision, by utilizing the practice of priority dispatching, increasing their and EMS vehicle fleet diversification.

The purpose of the task force would be examine the following questions:

> *Could the City of San Diego increase response times and achieve cost efficiencies by expanding the use of ambulances versus fire trucks for responses to EMS calls?*
>
> *Could the City of San Diego make greater use of priority dispatching and utilizing other kinds of vehicles for responses?*
>
> *Could the City of San Diego benefit from creating cross-trained Public Safety Officers, perhaps starting with targeted areas such as downtown or the beach communities?*

The Task Force we recommend creating should be comprised of independent, outside experts that can offer a fresh perspective on these and other options for improving public safety services in the city. Some of the issues we recommend exploring further are discussed below.

Ambulances vs. Fire Trucks and Deployment Models (Fighting Fires vs. Medical Emergencies)

Between FY 1980 and FY 2005, the number of **emergency medical incidents reported** to the City exhibited a four-fold increase. During the same period, the **number of fires reported** to the City actually decreased[1].

Between FY 2006 and FY 2009, the City Fire-Rescue Department responded to an average of 3,802 calls for fire per year, compared to 89,896 for EMS[2]. This means during this period, the Fire-Rescue Department handled 23.64 EMS calls for every fire.

In FY 2010, 85.64% of calls handled by the City's Fire-Rescue Department were for EMS, while the remaining 14.36% consisted of fires and other types of calls[3].

Basic Life Support (BLS) care, provided by Emergency Medical Technicians (EMT's), is basic medical care and transport of non-critical medical patients. Advanced Life Support (ALS) care, provided by Paramedics, is the level of medical care and transport necessary for more critical patients. Both Fire-Rescue fire engines and SDMSE ambulances provide BLS and ALS care, however only SDMSE ambulances can provide for medical transport.

County of San Diego Emergency Medical Services Treatment Protocols/Policies, Section P-801, requires that the City respond to all ALS incidents with a minimum of two paramedics. However, because the city has adopted a policy that all City Fire-Rescue engines are staffed with three EMT's and one paramedic, while SDMSE ambulances are staffed with one EMT and one paramedic,[4] the City dispatches both a fire engine and ambulance to all ALS incidents.

As a result of this service-delivery model and staffing structure, the city sends four EMS personnel to all incidents, thus making those resources unavailable for all other calls. In contrast, a system primarily dependent upon ambulances (rather than fire trucks and ambulances), could send two or four EMS personnel to a call depending on severity, thus providing the potential for two EMS personnel to remain available for other, perhaps more critical, incidents.

The need for a thoughtful review of current fire engine staffing is not a trivial issue. Under the City's current Memorandum of Understanding (MOU) with its firefighters, the cost of maintaining a level of staffing above that which is legally required by the County is significant.

To maintain the minimum legally required staffing (under the current cost structure), the City would need to pay only the sum of the four firefighters' base salaries plus a premium of 8.5% of base pay to one EMT (omitting overtime and other considerations). To maintain its current staffing levels, the City must pay the sum of the four firefighters' base salaries plus an 8.5% premium to three EMT's and a 13.5% premium to one paramedic (again omitting overtime and

1 City of San Diego, Fire-Rescue Department, Annual Report 2005
2 City of San Diego, FY 2010 Budget
3 City of San Diego, Office of the Independent Budget Analyst, Proposed Minimum Staffing for Fire Engines and Fire Trucks Council Policy
4 City of San Diego, City Council Report 08-077, May 9, 2008

other considerations). Thus, approximately speaking[5], the current EMS delivery method increases engine-staffing costs by 7.5%.

Public Safety Cross-Training

Cross-training public safety officers allows them to meet multiple public safety needs. Some cities have created positions – and in some cases entire departments – that use staff with policing, fire fighting and EMS capabilities. Citywide deployment of cross-trained public safety officers may not be cost-efficient, however several communities may find this model advantageous during specific time periods or for specific kinds of response calls. For example, it is our understanding that a significant number of calls relate to homeless individuals downtown – creating a potential opportunity for cost savings reforms through alternative service delivery models.

Reform City Special Event Permitting

San Diego is home to numerous special events – many of which require police and fire staffing charged at discouragingly high rates. To reduce costs and strain on resources in the police and fire departments for special event staffing, the City should consider models used in San Jose to provide more cost certainty to event organizers. We discuss this issues in detail in our report, "Open for Business: Action Plan to Make San Diego the Most Friendly City in American for Small Business.[6]"

Reform 3.6 Cancel New City Hall Project – Lock In Affordable Lease Rates

We have adamantly opposed building a new City Hall in the middle of a financial crisis, particularly given the opportunities available in the local commercial real estate market. We have advocated for attempting to lock-in lower lease rates for city office space during the market downturn, but also think other alternatives should be explored.

These alternatives include:

> *Link the discussion of city office space needs with efforts to shrink the size of the city's workforce through restructuring and managed competition.*
>
> *Rather than adding costs to the City's budget for repairing the existing City Administration Building, the City should explore cost savings available moving city operations into three or four locations around the city. The city should be taking advantage of historically low lease and purchase rates by locking in cost savings today for long-term benefit.*
>
> This model would consolidate city staff into four locations organized around 3-4 business lines.
>
> - Economic Development and Support Services: Planning, Development Services, Office of Small Business
> - Public safety and Neighborhood Services: Parks, Libraries, Recreation, Police, Fire, etc.
> - Infrastructure and Utilities: Streets, General Services, Water, Wastewater, etc.
>
> To contribute to neighborhood revitalization and achieve cost efficiencies on office space and parking, we propose selecting a distressed community for at least one of these 3-4 functions.
>
> *Tap technology to integrate city staff – using Skype, teleconferencing and other technologies, city staff can be distributed into 3 or 4 locations easily without impacting performance and communication capability.*

Any savings achieved from this plan for securing more cost-effective office space should be used to provide neighborhood services

5 Actual difference may vary depending on the relative base salaries of the firefighters, this calculation assumes that all firefighters receive the same base pay.
6 See http://www.sandiego.gov/citycouncil/cd5/news/index.shmtl

Long-Term Changes

IN PROGRESS – ADDITIONAL REFORMS IN DEVELOPMENT

In addition to the issues discussed above, Councilmember DeMaio plans to explore:

- Expanded Maintenance Assessment Districts to Provide Enhanced Service with Local Control
- Ideas to Create the "Library System of the Future" – with an emphasis on expanded access to databases, electronic books, and partnerships with local schools
- Expanding public-private partnerships for parks and recreation programs
- Creation of a city-wide Community Volunteer Corps modeled after San Diego's successful "Urban Corps" program

Commitment 4: Comprehensive Pension Reform

City employees should receive a reliable retirement allowance that is no better and no worse than the average San Diego taxpayer – and city employees should assume a fair share of the risk and costs of these benefits.

Until the city reforms its pension liability, no tax increase will be big enough…no service cut will be deep enough…to satisfy the skyrocketing debt service on the city's pension system.

Like a bankruptcy reorganization plan, the Roadmap to Recovery is committed to restructuring and reducing our net liabilities in the pension system through reform of benefits for both existing and new city employees.

The reforms outlined in this Roadmap to Recovery are designed to reduce the long-term debt service on the pension liability and bring the city's long-term operating costs back down to sustainable levels. Specifically, the Roadmap to Reform is designed to produce a 20% reduction in the largest retirement cost faced by the city: the annual city payment for the defined benefit pension plan - and a reduction of one third of the cost of all retirement benefits.

When added together with reforms to other discretionary retirement benefits, the Roadmap to Reform not only achieves savings in the FY 2012 budget – but most importantly produces hundreds of millions of dollars in savings over the next 10-15 years.

All reforms outlined in this plan are legal – and have a well-documented and proven basis for implementation.

Modeling of Financial Impacts from Reforming Retirement Benefits

Analysis of the impact of retiree health care comes from actuarial data provided by the Buck Consultants for the "Joint Study" conducted by the city with input from the labor unions - as well as the city's 5-year Financial Outlook.

To model the financial impacts of a variety of pension reforms, Councilmember DeMaio's office obtained the services of a professional actuarial firm – Sheffer Consulting Actuaries, Inc.

It should be noted that the pension payments utilized in the Mayor's Five Year Outlook do not reflect the General Fund portion of the projections provided by the SDCERS actuary.[1] Our office has inquired as to the methodology utilized to obtain these pension projections on numerous occasions (e.g. budget hearing questioning, committee meeting questioning, written memoranda[2] and follow-up e-mail) but has not received an official explanation to date. As a result, the Roadmap to Reform uses the analysis provided by our actuary.

Reducing the Retirement Liabilities

Freeze Pensionable Pays

Sharing Investment Risks/Costs

Opt-Out Program

Managed Competition/Downsizing

Eliminate Retiree Health Care for Existing Employees

[1] See Five Year Financial Outlook, Attachment 1, Footnote 1. April 19, 2010.
[2] See Memo from Councilmember Carl DeMaio to Jay Goldstone. August 11, 2010.

The Five Year Outlook published in April of 2010 assumed a pay freeze in each year of the Outlook. Since we can only speculate that the pay freeze partially or wholly accounted for the variation between SDCERS and Five Year Outlook pension projections, we substitute the projections provided by our actuary for the projected pension payments in the Five Year Outlook to estimate baseline savings beginning in FY 2013.

FY 2012 Changes

Reform 4.1: Realize Savings from General Salary Freeze

As further explained in the long-term section of this Commitment, freezing payroll – particularly pensionable payroll – can have a significant impact on the City's annual pension payment. Recent experience has shown that the City can lower its annual pension costs by holding the line on salary increases. However, as the Independent Budget Analyst (IBA) has noted,

> *"For FY 2011, the pension system actuary…estimated the ARC reduction due to a one-year salary freeze to be approximately $8.6 million. This is less than the FY 2010 estimation of $12.0 million. The reason for the differ ence is that the City is only freezing general salary increases, and not the step increases that are received by classified personnel."*

Recognizing the issue raised by the IBA that is referenced above, we have also asked our actuary to estimate the impact of the pay freeze for the FY 2012 pension payment to account for the step increases that have occurred. Our General Fund estimate of the pay freeze impact is a savings of $8.1 million from the baseline projection in the Five Year Outlook.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City-Wide	Estimated value of reduced annual pension payment derived from general salary freezes	NA	$8,100,000

Reform 4.2: Eliminate Retirement Offset Contributions

The city's pension system was established on the contributory plan – wherein the employer (e.g. taxpayers) makes a contribution and city employees are supposed to make a substantially equal contribution for the normal cost of their pensions. Unfortunately, there are several areas where the spirit, of not the law, of "substantially equal" requirement are not being followed.

Within the budget, Retirement Offset Contributions "represent the amount of City employees' retirement contributions that the City pays" for the employee[3]. The Roadmap to Recovery requires that the City end the practice of "picking up" any portion of employee pension contributions in addition to the employer contribution.

While the City Council recently eliminated the offset for elected officials and unclassified/unrepresented employees[4], employees represented by the Municipal Employees Association (MEA) and Teamsters 911 still receive a retirement offset contribution.[5]

The Roadmap to Reform plan eliminates the offset entirely for all City employees to help move City employees closer to paying the Charter-required share of the cost of their retirement. This is projected to achieve a General Fund savings of $4.8 million based on the Adopted FY 2011 Budget ($7.9 million citywide).

The City Attorney has opined that eliminating the offset through the "Meet and Confer" process is legal, and recent precedent exists for doing so.[6] Furthermore, the City will be negotiating new MEA and Teamsters labor contracts to take effect in FY 2012.

[3] City of San Diego Adopted FY 2011 Budget.
[4] San Diego City Council meeting, October 19, 2010, Item 51
[5] Memorandum of Understanding with Municipal Employees Association, July 1, 2009.
[6] See City Atty Legal Opinion LO-2010-1.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City-Wide	Complete elimination of "offsets" to employee contributions for pensions	NA	$4.8 Million

Reform 4.3: Continue Savings Achieved from Revised SDCERS Rates for "Substantially Equal" Contributions

As our office and the City Attorney's office have raised the issue of challenging how the city achieves compliance with the Charter requirement of charging city employees a "substantially equal" share of the cost of a normal pension allowance, SDCERS has already taken some action that have resulted in benefits to city taxpayers.

In fact, the City's actuarial valuation results of June 30, 2009 were adjusted to reflect the Board's decision to adopt new employee contribution rates at its May 28, 2010 meeting. This resulted in a $2.6 million reduction in the FY 2011 ARC.[7]

Some on the City Council raised the possibility of "giving back" these gains; we do not support giving back these taxpayer savings. We expect additional savings in the FY 2012 budget from these modifications to contribution rates made by SDCERS, but are intentionally not scoring those savings pending further analysis of SDCERS methodology and its impact on FY 2012.

The Budget and Finance Committee should request this analysis as soon as possible so savings can be booked into the FY 2012 budget solution.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City Wide	Impact from "Substantially Equal" policy adopted for disability and other actuarial items	NA	Pending Analysis by SDCERS

Reform 4.4: Incorporate Reform of Rates Charged for Purchase of Service Credits Into FY 2012 Budget

Over the years city employees have been provided the opportunity to purchase additional service credits. After a legal judgment in favor of the City, SDCERS is in the process of correcting the practice described below, which incorrectly resulted in the City picking up the cost associated with employee purchases of service credits at prices below what they should have been.

On this issue, the city's Municipal Code section 24.1312 requires that:

> *"provides that an employee cost to purchase…[a] PSC must be the amount the Board determines to be both the employee and the employer (plan sponsor) cost for that service, SDCERS was not permitted by law to delay implementation of the new rates once it determined a new rate [in 2003]. The City ended up paying for the underfunding through it Unfunded Accrued Liability (UAL). As a result, the affected PSC contracts were not legally authorized…because SDCERS had no legal authority to continue to offer the old rates once it had determined that the new higher rates were required to comply with the Municipal Code. SDCERS is prohibited from requiring the City to make up the underfunded amount by including it in the City's UAL, and from permitting retirement benefits to be paid to members based upon contracts issued using the legally unauthorized rules."* [7]

In anticipation of savings from this legal ruling, the City underpaid the FY 2011 ARC by $4 million. This underpayment of the pension payment was not brought before the City Council, nor is the methodology (thus, appropriateness) used for calculating the $4 million underpayment known.

There are two issues to consider surrounding this underpayment:

1) If the underpayment is accurate, the City will have $4 million of appropriated funds from FY 2011 to carry over to FY 2012, assuming that the funds are not needed to bridge any FY 2011 budget gaps that may arise.

[7] SDCERS. "Summary: Court of Appeal Ruling on Purchase of Service Credit (PSC).

2) If the underpayment resulted in the City remitting an ARC payment that was too low, the City is accruing compound interest on that underpayment of 7.75% annually. Further, if SDCERS investment experience is favorable, the opportunity cost of not making the full pension payment increases.

Note: The proportion of the $4 million underpayment made to SDCERS that is attributable to the General Fund is unknown.

Given the financial condition that the City finds itself in and the potential for accruing interest owed to the pension system that would otherwise not be owed under a July 1 full payment scenario, we recommend that this issue be resolved as soon as possible at the Budget and Finance Committee.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City Wide	Impact from "Purchase of Service" rate adjustments by SDCERS	NA	Pending Analysis by SDCERS

Reform 4.5: Impact of Improved Investment Returns on Annual Pension Payment

It is our understanding that the pension plan administered by SDCERS exceeded the assumed rate of return for the year ending June 30, 2010. The precise magnitude of the impact will not be known until the actuarial valuation is complete at the end of calendar year 2010, however. The Five Year Outlook assumes that the FY 2012 pension payment is the result of all actuarial assumptions being achieved. Therefore, any positive net impact due to experience gains will lower the ARC payment in comparison to the projected payment in the Five Year Outlook, in turn lowering the FY 2012 deficit.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City Wide	Actuarial Impact from higher-than-expected investment earnings	NA	Pending Analysis by SDCERS

Reform 4.6: Complete DROP Cost Neutrality Study and Implement Necessary Reforms

One of the conditions in Prop D was the completion of a cost neutrality on the "Deferred Retirement Option Plan" (DROP) program. As part of the creation of DROP, the program was supposed to be implemented in a strictly "cost neutral" manner. Unfortunately significant questions remain on whether that has occurred over the life of this controversial program.

By July 1, 2011, the Mayor and City Council should complete the DROP study and implement any necessary reforms and adjustment to the DROP program or salaries of DROP participants to ensure full cost neutrality.

Reform 4.7: Reform Retiree Health Care Liability

In general, city employees hired before July 2005 are slated to receive free taxpayer funded health care coverage for life. This benefit has not been properly funded by the city as an employer or city employees - resulting in a massive unfunded liability.

The actuarial valuation for the City's retiree health care liability at June 30, 2009 revealed a funded ratio of only 3.05%, and an Unfunded Actuarial Accrued Liability (UAAL) of $1,317,880,746.[8]

Worse, city taxpayers face an ever-escalating liability due to the fact the city continues the practice of intentionally underfunding the cost of this benefit package. In FY 2011, the city's annual required contribution to service the current cost and future debt of this liability was over $120 million, yet the city only budgeted $57 million for this expense.

The Roadmap to Reform comprehensively reforms this debt facing taxpayers – and generates significant savings for taxpayers starting in FY 2012.

The Buck Study on Why the Retiree Health Care Liability Must Be Reformed

"The serious threat the unfunded liability is to the on-going viability of the current retiree health benefit;

"The major implications of the unfunded liability to the City's long term fiscal health; and

"The threat that the unfunded liability poses to reaching future agreements on satisfactory terms and conditions of employment."

The City has consistently underfunded the actuarially-determined payment for a retiree health care benefit that is the "highest level of retiree benefits in comparison to the jurisdictions in San Diego County," and "among the highest in comparison to the ten largest cities in the State of California."

Furthermore, "[t]he actuarial analysis conducted...reveals alarming numbers that the City and taxpayers will be required to pay if there are no changes to the current retiree medical benefit."

The Study goes on to note the following key point:

"Simply stated, the City believes it cannot sustain these numbers and maintain appropriate service levels to the public."

[8] Letter from Buck Consultants to City of San Diego re: GASB 45 Liability as of June 30, 2009.

Under the Roadmap to Recovery, we propose that the City implement "Option 12" modeled by Buck Consultants for the "Joint Study" conducted by the Joint Committee on Retiree Health.

This option freezes the City's retiree health contribution at $0 for current employees, while leaving the benefit unchanged for employees already retired.

Reforming retiree health care benefits in this manner is appropriate for two reasons. First, as already well documented, city employees impacted by this change can expect pension benefits "that are generous by any standard applied."[9] Those pension payouts can be used by these individuals to pay increased costs for health care.

Second, this reform has already been implemented for new employees. Safety Members hired after July 1, 2005, currently have no retiree health benefit. General Members hired after July 1, 2009 receive a modest defined contribution health care plan.

Without Retiree Health Care Reform, City Fiscal Outlook Is Bleak

The unfunded portion of the City's annual retiree health care payment represents part of the City's structural deficit, even if it is not acknowledged in the official deficit figure.

As a result, any reform of the retiree health care liability up to a level that reduces full annual costs (the ARC) to currently funded levels does not produce any real budgetary savings, per se. Such reform would significantly reduce what has been a relatively unrecognized component of the City's structural deficit, but does not help to balance the City's recognized budget deficit.

Past and current practice of underfunding the retiree medical benefit has perpetuated a generational inequity among taxpayers. By not adequately "pre-funding" retiree medical costs in previous years, the practice has forced today's taxpayer to foot the bill for the costs associated with providing yesterday's taxpayer with services.
The Joint Study explains this past practice, noting that:

> *"The City followed the custom of most other public entities in paying for retiree health benefits on an annual "pay-as-you-go" (PAYGO) basis…The PAYGO expense is the actual cost of providing retiree health benefits to all eligible retirees each year and does not include any amount to "pre-fund" the cost of paying this benefit in future years."*

Legal Authority To Implement Retiree Health Care Reforms

While the City Attorney has clearly opined on the limited options the City has to change pension benefits , the City has far more legal flexibility with regard to retiree health care.

The City notes in the Joint Study that "retiree health benefits are not part of the retirement system…such that a vote under Charter section 143.1 is no longer required to amend the retiree health benefit." Further, the City Attorney's office has noted the notion that "the retiree health benefit is an employment benefit subject to modification through the meet and confer process."

Further, the City Attorney's position "is supported by the recent decision of the Ninth Circuit Court of Appeals, San Diego Police Officers' Ass'n v. San Diego City Employees' Retirement System…in which the court reviewed the historical facts related to implementation of the City's retiree health benefit and determined that the benefit was a longevity-based benefit that has been treated as an employment benefit and that has been negotiated through the collective bargaining process."

To reiterate the ramifications of this point, the City Attorney's office has opined that "employment benefits are terms and conditions of employment, which may be modified or eliminated through the collective bargaining process…"

Comprehensive retiree health care reform must be viewed from the perspective of the City's finances in conjunction with other obligations of the City with respect to employee retirement benefits. Generous pension benefit multipliers have been deemed "vested rights" (unchangeable), but the City Attorney has made it very clear that the retiree medical retirement benefit can be changed.

[9] PRC Final Report, 2004

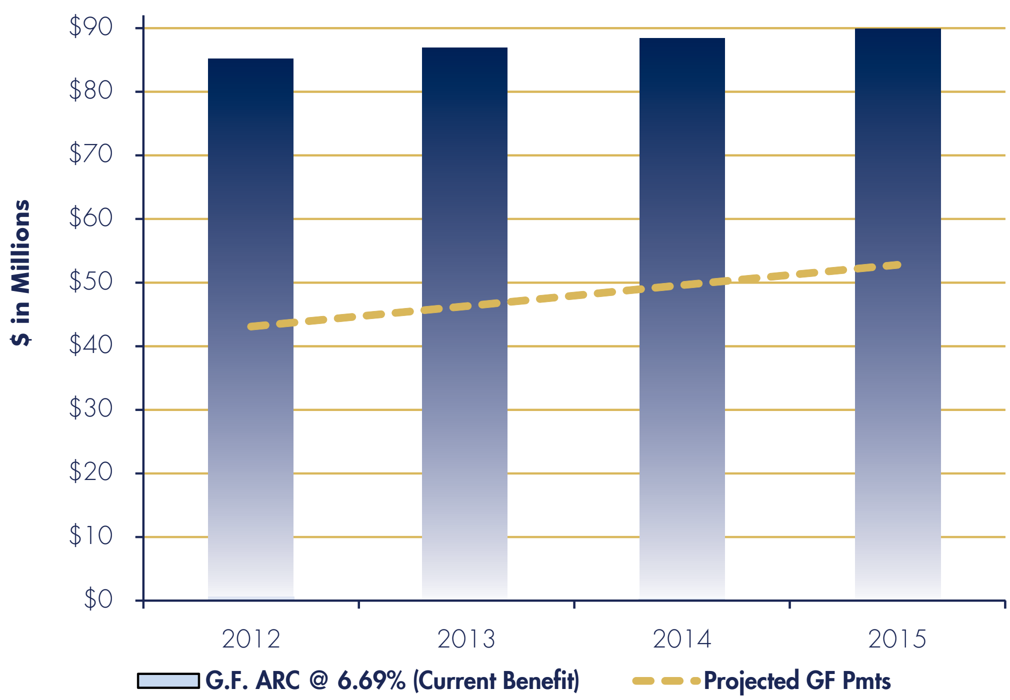
While the City began to pay expenses in addition to PAYGO costs ("pre-funding") in 2008, dealing with the unfunded liability associated with retiree health care has proven to be an unsustainable and massive drain on the City's finances, to the detriment of today's taxpayer. [10]

The Joint Study also depicts the detrimental impact that the retiree health care liability has on a sizeable portion of the City's workforce, noting that "…unions must also understand that the current retiree health benefit will preclude or substantially limit the City's ability to increase employee wages or benefits for the foreseeable future." (Emphasis added)

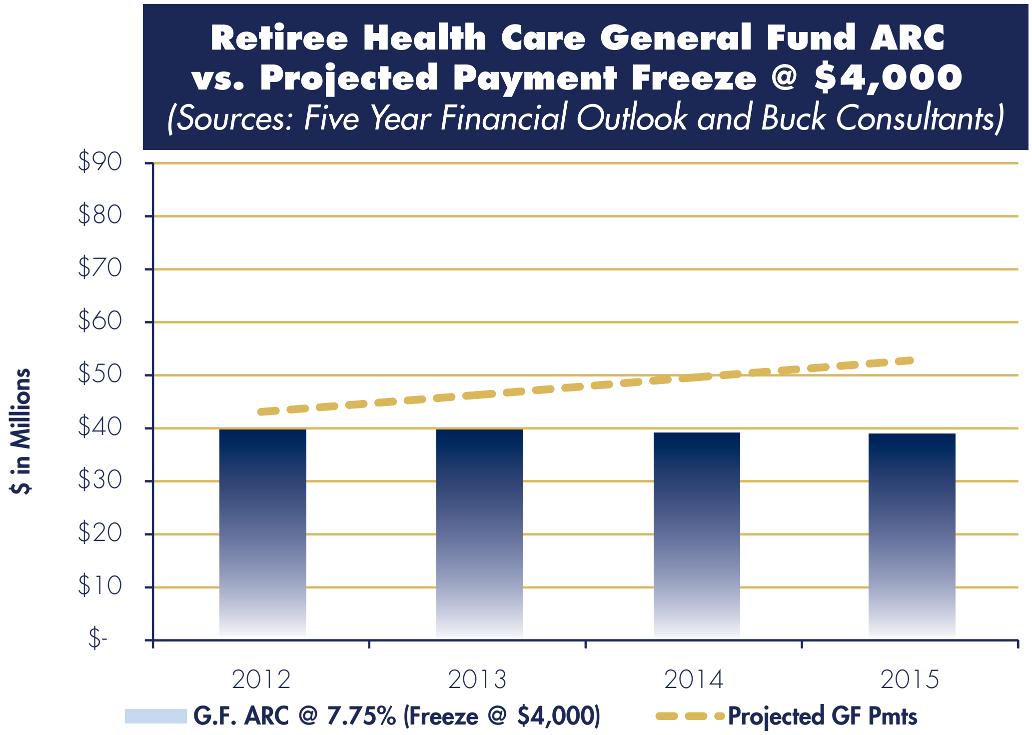
Budgetary Impact of Reforming Retiree Health Care
The reduction in General Fund retiree-health care expenses (thus, savings) in the General Fund can be seen in the charts below. The charts progress from the scenario projected in the Five Year Financial Outlook to a freeze of benefits at $4,000 per year, $1,000 per year, and $0.

In the "Status Quo" chart, the General Fund retiree health care payment is underfunded significantly in each year projected in the Outlook. The charts progressively show the budgetary savings available from reducing the benefit at various increments.

Retiree Health Care General Fund ARC vs. Projected Payment Status Quo
(Sources: Five Year Financial Outlook and Buck Consultants)

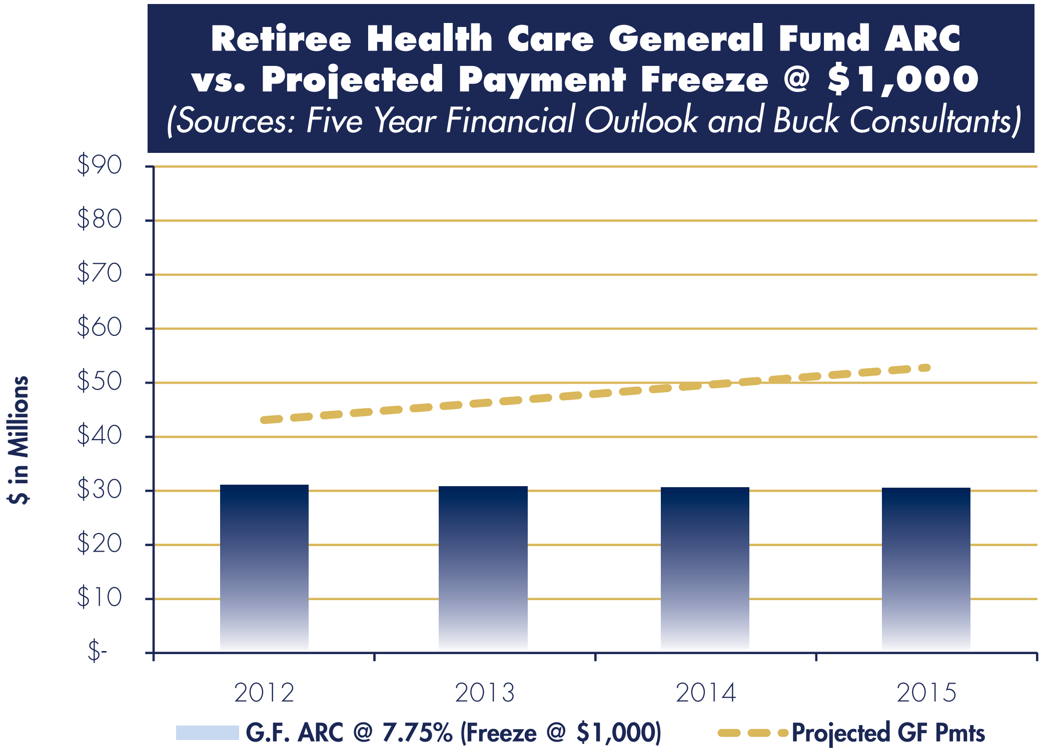


[10] See "FY 2011 Budget Recommendations and Priorities," May 20, 2010, and "Fiscal Analysis: Retirement Costs Consuming an Increasing Proportion of the General Fund." January 26, 2010.

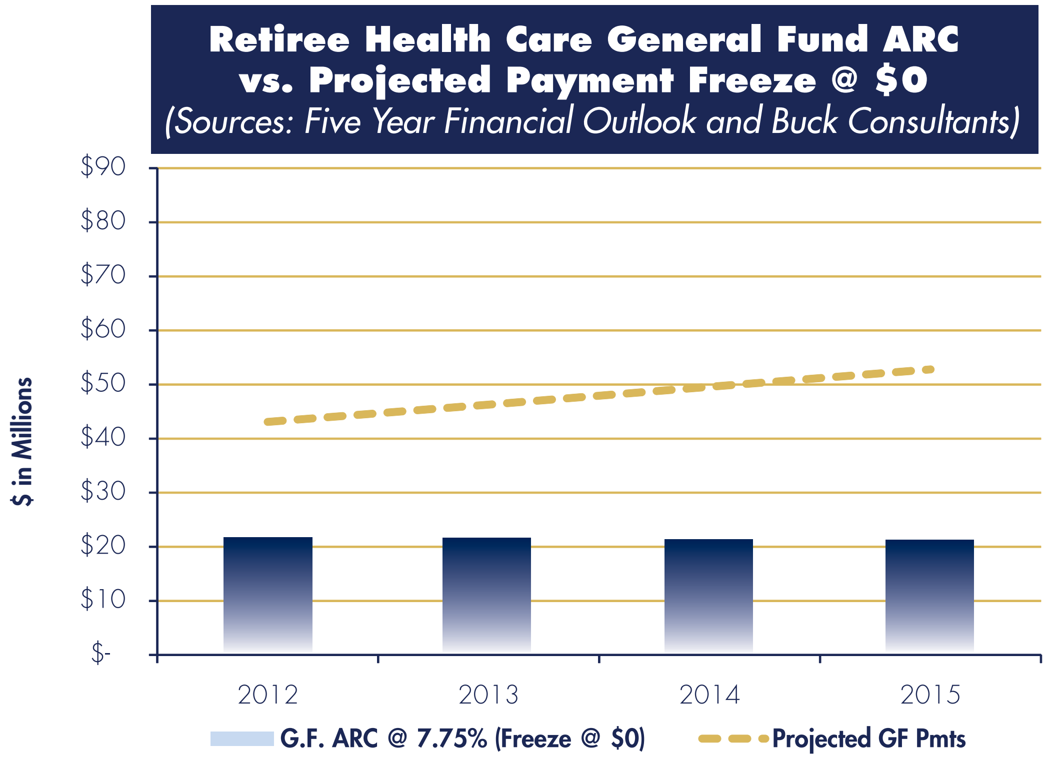


The "Freeze @ $4,000" chart above shows the projected General Fund impact beginning in FY 2012 to retiree health care costs if the benefit is frozen at $4,000 for active employees. The City also benefits from a more favorable discount rate in "valuing the plan liabilities" with full funding of the ARC, "which results in lower accounting costs." [11]

The charts below and the next page depict the increased budgetary savings from freezing the benefit for active employees at $1,000 and $0, respectively.



[11] See Buck Consultants February 12, 2010 "Retiree Health Analysis for the Joint Retiree Medical Committee."



Five Year Outlook Retiree Health Care Reform-Level Impacts				
Fiscal Year	2012	2013	2014	2015
Status Quo - General Fund Projected Payment vs. General Fund Portion of ARC				
ARC @ 6.69% (Underfund)	$85,312,111	$87,155,709	$88,779,931	$90,151,557
ARC @ 7.75% (Fully Fund)	$77,883,737	$77,486,505	$77,092,042	$76,700,346
Projected Pmt	$43,100,000	$46,300,000	$49,600,000	$52,800,000
Projected Underfunding	$42,212,111	$40,855,709	$39,179,931	$37,351,557
Projected General Fund Budget Savings from Reforms				
Freeze @ $4,000	($3,400,346)	($6,819,723)	($10,338,408)	($13,538,408)
Freeze @ $1,000	($11,885,467)	($15,264,014)	($18,740,484)	($22,116,263)
Freeze @ $0	($21,358,131)	($24,691,696)	($28,123,875)	($31,455,363)
Projected General Fund Structural Deficit Savings from Reforms				
Freeze @ $4,000	($45,612,457)	($47,675,433)	($49,518,339)	($50,889,965)
Freeze @ $1,000	($54,097,578)	($56,119,723)	($57,920,415)	($59,467,820)
Freeze @ $0	($63,570,242)	($65,547,405)	($67,303,806)	($68,806,920)

As the charts and data table above show, by reducing the retiree health care benefit to active City employees to $0, the City can reduce its projected budget deficit by $21.4 million in FY 2012. Just as importantly, however, is that the General Fund structural deficit can be decreased by $63.6 million through comprehensively reforming this liability.

City of San Diego Distribution of Safety (Fire and Police) Employees (as of 1/8/10)

Years of Service	0-4	5-9	10-14	15-19	20-24	25-29	30+	Total
# of Employees (Fire)	198	186	151	106	126	91	7	865
% of Total (Fire)	22.9%	21.5%	17.5%	12.3%	14.6%	10.5%	0.8%	100.0%
# of Employees (Police)	563	240	238	336	322	144	25	1868
% of Total (Police)	30.1%	12.8%	12.7%	18.0%	17.2%	7.7%	1.3%	100.0%

Source: City of San Diego Retiree Health Joint Study, Appendix

The City table above and the preceding statement regarding the retiree health benefit for safety members indicates that approximately 23% (more than one in five) of firefighters and 30% (more than one in four) of police officers are impacted by the benefits awarded to their counterparts with more years of service that they themselves cannot receive.

In essence, the generational inequity associated with retiree health care does not only apply to taxpayers, but to a significant segment of City employees. The same metric is provided for the citywide workforce below, although it should be noted that post-2009 general members participate in a .25% defined contribution retiree health plan. As the table shows, more than 20% of the entire City workforce does not stand to benefit from any continued dispute over retiree health benefits, while at the same time these employees' ability to earn salary increases is being sacrificed due to the incredible pressure placed on City finances by the current benefit.

City of San Diego Distribution of Active Employees (as of 1/8/10)

Years of Service	0-4	5-9	10-14	15-19	20-24	25-29	30+	Total
# of Employees	2046	1898	1574	1501	1409	570	235	9233
% of Total	22.2%	20.6%	17.0%	16.3%	15.3%	6.2%	2.5%	100.0%

Source: Appendix to the City of San Diego Retiree Health Joint Study

To recap, eliminating the benefit for current employees provides the following benefits to the City financially:

- It represents a legal means to reduce overall retirement packages afforded to current City employees to more sustainable levels in a way that is different from the City's ability to affect pension benefits.
- It achieves significant annual General Fund budget savings.
- It reduces one of the somewhat unrecognized components of the City's structural budget deficit by an even greater amount.
- It helps to undue a generational inequity imposed on taxpayers because the benefit was not funded adequately in the past.
- It helps to eliminate a generational inequity currently imposed on approximately one-fifth of the City's work force (more than one-fourth of police and fire employees) by removing a significant impediment to the City's ability to increase salaries for the foreseeable future.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City Wide	Retiree Health Care Reform	NA	$21,358,131

Long-Term Changes

Reform 4.8: Reduce and Freeze "Pensionable Pay" for Five Years

While the City is limited in its options to change pension benefits for existing employees, it does have control over annual salaries and wages through the negotiating process. The City Attorney has opined: [12]

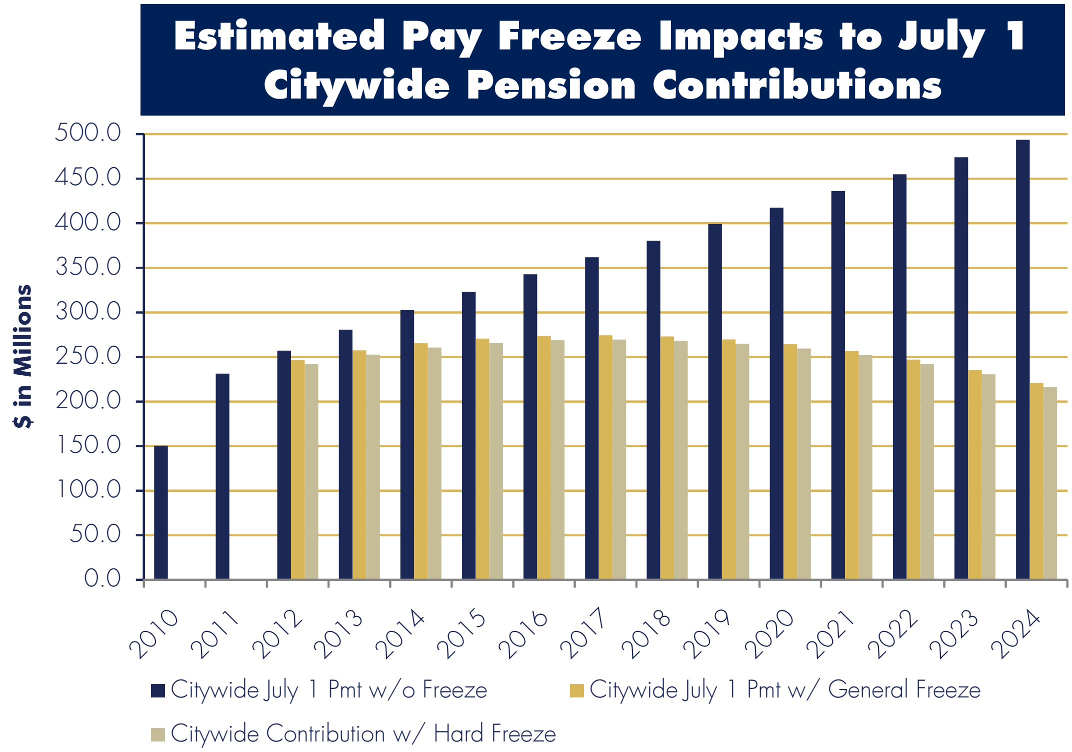
> *"As a general rule, the terms and conditions of public employment are governed by statute or ordinance rather than by contract, and employment benefits, including compensation, may be modified or reduced as long as the City complies with any applicable procedural requirements."*

We obtained a model of a "hard" pay freeze – one that assumes that payroll is held constant in each year. It is important to note that the City has maintained the practice of awarding "step" increases as called for under Personnel Regulations.[13] As explained in Reform 4.1, the City can achieve over $8 million in savings in FY 2012 from the prior general salary freezes.

While the City could propose temporarily freeze step salary increases in negotiations, such a proposal could be more difficult to attain in the "Meet and Confer" process than other labor cost savings (for example, a general salary freeze or reduction) because of legal issues created by Charter section 130 (additional information provided in the "Step Increase Freeze" section below). As a result, in our FY 2012 recommendations, we focus on general salary cuts and various options for cost savings with special pays.

The graph to the right shows the range of estimated impacts from implementing an indefinite pay freeze. We are not suggesting that pay be frozen through FY 2024, but provide the analysis to display the ability the City has through a freeze to impact its annual pension payments.

The "General Freeze" is an estimate that accounts for step increases, while the "Hard Freeze" shows the estimated impact to City pension payments from holding pensionable payroll at a truly frozen level. [14]



[12] See City Attorney Opinion Number 2010-1.
[13] See Personnel Regulations Index Code H-8.
[14] Pension projections are based on data from the original June 30, 2009 SDCERS Actuarial Valuation, published in January 2010. A revised version of the valuation was released after our actuarial firm had begun their work. The data we have been provided assumes mid-year contributions by the City. To account for the City's practice of making its full ARC payment on July 1 of each year, we adjust mid-year payment projections for interest savings by the following formula: July 1 ARC = Mid Year ARC * (1 – (.0775/2)). The General Fund portion of the payment is assumed to be 77.8% each year, per the most recent Five Year Financial Outlook.

Reform 4.9: Explore Changing Pensionable Status of Special Pays

To enhance the freeze and/or reduction in "pensionable pay," and perhaps achieve even better savings than represented in the bar graph above, the City can also seek to negotiate the "pensionable" status of a number of "specialty pays."

Our office has identified at least $13 million in special pays that are currently considered pensionable that may be legal candidates for conversion to "non-pensionable" status in the coming year.

In these cases, the City may have an opportunity to reduce pensionable payroll (thus achieving actuarial savings long term in the pension system.)

Our office has inquired as to the legal ability of the City to pursue such a strategy, and it is our understanding that the majority of special pays can be either eliminated or restructured in such a way as to reduce the number that have "pensionable" status.

The Roadmap for Reform calls on the City to explore the potential for pensionable status reform of special pays, and we recommend the city labor negotiating team tackle at least 10 special pays prior to commencement of FY 2012, including all Bilingual Pays (Excluding Police), Hose Repair Pay, Ladder Repair Pay, and Dispatch Cert Pay.

(NOTE: For a more exhaustive discussion on special pays, see Commitment 5: Reform City Salaries and Labor Contracts.)

Reform 4.10 Transition to Affordable Pension Plans

The current level of pension benefits are not only unaffordable to city taxpayers, but may be also unaffordable to city employees – in the event that city employees are required to pay a fair share of the cost of the benefits.

That's why the Roadmap to Recovery proposes the establishment of additional pension tiers and options for city employees:

Defined Contribution Plan

The city should immediately provide a simple 401(k) plan to all new hires and offer existing employees the ability to "freeze" their current pension benefit levels by leaving the system and enrolling in the 401(k) plan immediately.

DB-DC Hybrid Plans

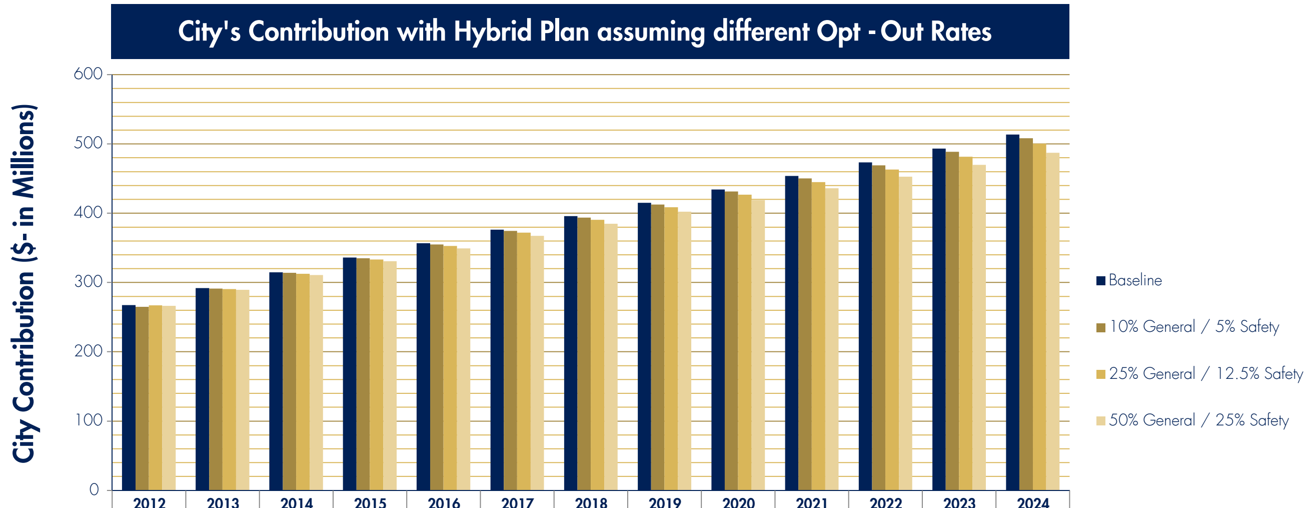
The General classification employees already have a hybrid pension plan that is more affordable. Police Officers have a lower tier defined benefit plan, but it is still quite costly. Under Prop D Firefighters were expected to receive a plan similar to the one created for POA. The Roadmap to Reform believes a more affordable hybrid plan should be offered to Police and Fire employees.

In addition to creating these more affordable hybrid plans for new employees, the city should adopt the policy to allow all existing employees to downgrade from higher tier to these lower tiers.

Implementation of this policy will have to await final approval from the Internal Revenue Service.

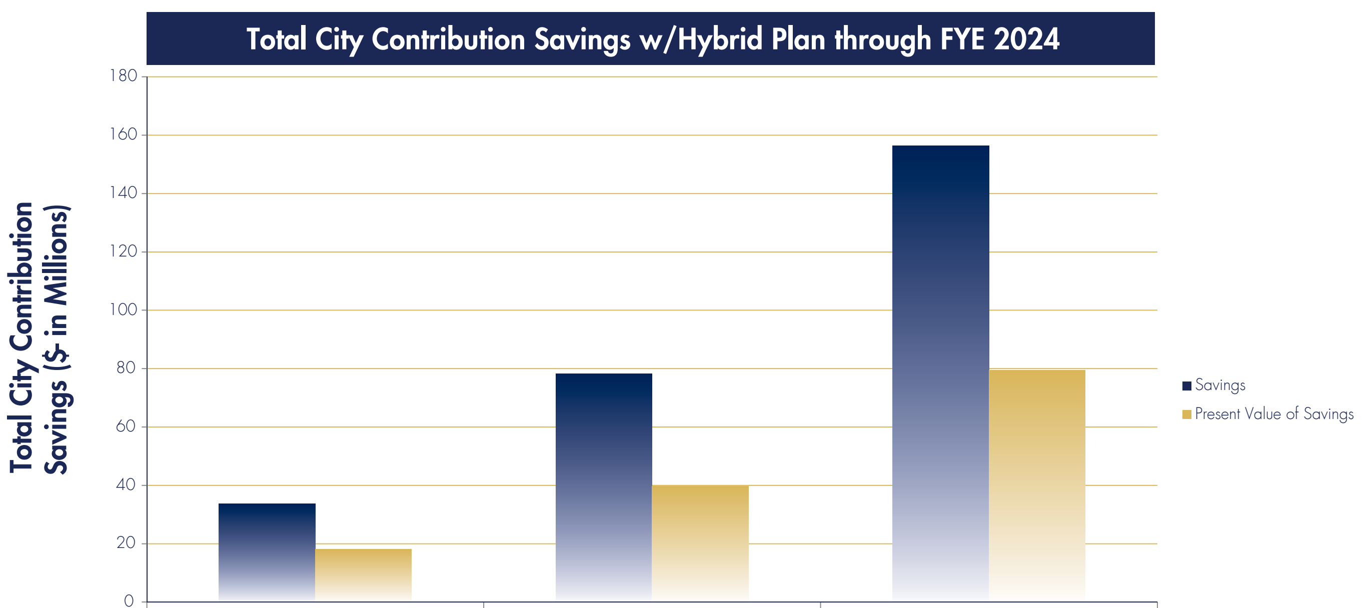
We also obtained an actuarial analysis of a potential "opt-out" program, where City employees would leave the current system and opt into a hybrid, where a Defined Benefit reduced by 50% was packaged with a 5% defined contribution match.

Different take-up rates for public safety and general employees were assumed, with the potential savings from such a program under three different take-up scenarios shown on the next page:



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Baseline	267	292	315	336	357	376	396	415	434	454	473	493	514
10% General / 5% Safety	265	291	314	335	355	375	394	413	431	450	469	489	508
25% General / 12.5% Safety	267	291	313	333	353	372	390	409	427	445	463	482	500
50% General / 25% Safety	266	289	311	331	349	367	385	402	419	436	453	470	487

Fiscal Year End



	10% General / 5% Safety	25% General / 12.5% Safety	50% General / 25% Safety
Savings	34	78	156
Present Value of Savings	18	40	79

Assumed Opt-Out Rate

Reform 4.11: Continue SPSP Waiver Process

Beginning in FY 2013, we recommend inplementing a SPSP waiver or commensurate compensation reduction for remaining bargaining units with the benefit.

Reform 4.12: Adopt Total Net Compensation Model for Each Classification

Once "pensionable pay" is reduced and capped for the five year period, and in preparation for the "opt-out" pension reform plan, The City should explore whether an amendment Charter Section 130 is needed in order to adopt a "net compensation" model for city employee classifications.

A total sum of compensation for each city classification would be provided, along with a standard "benefits allowance" that provides for all fringe benefits (including pension costs).

Employees in the higher pension benefit level will see less take-home pay than employees in lower, more affordable pension benefit levels.

The net compensation model is not only designed to provide greater financial incentives to city employees to voluntarily "opt-out" of higher pension tiers, but is also explicitly designed to address the Generational Inequity that has been created within the city workforce where some city employees receive greater compensation with higher benefits at the expense of other employees with lower benefit packages.

Reform 4.13: Explore Benefit from Requiring City Employees to Share Equally in Pension Investment Risks [15]

The analysis shows that the City stands to gain potentially gain from a sharing of investment losses.

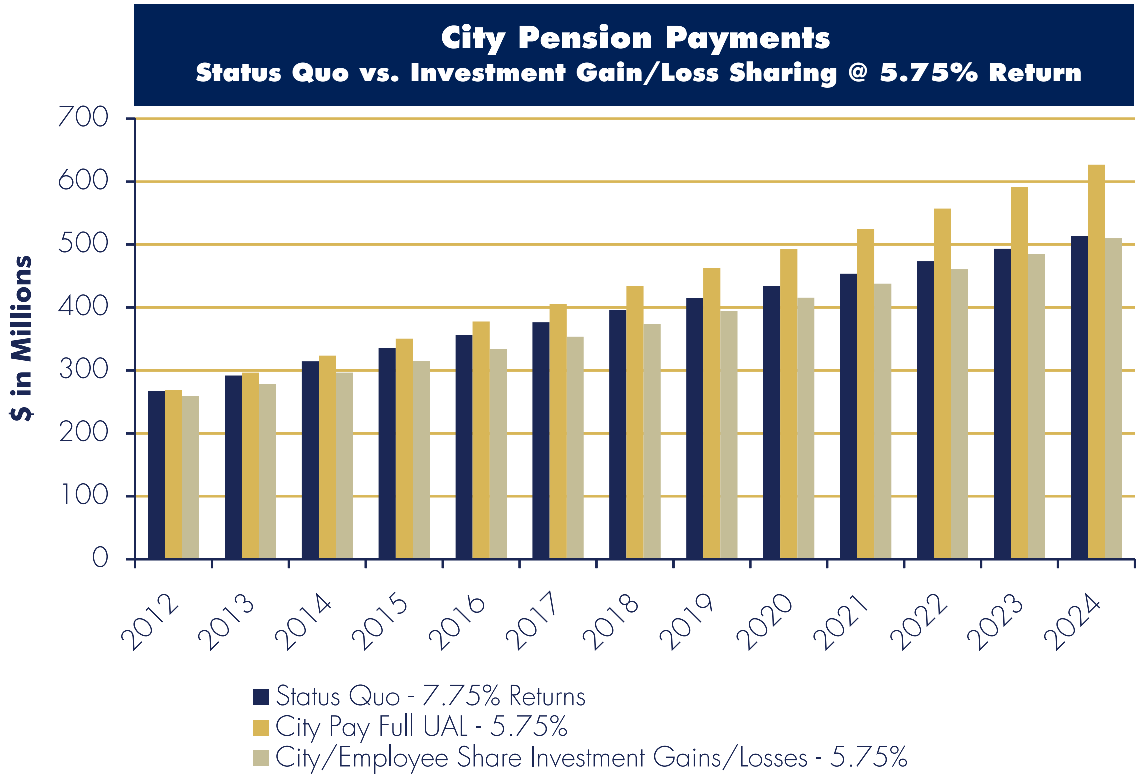
This reform – known as "Sub-Equal for Investment Gains/Losses" – was originally raised by the Pension Reform Committee in 2004 and has been raised consistently by our office. In spring of 2010, City Attorney Jan Goldsmith, with the support of the City Council, brought suit against SDCERS over this issue.

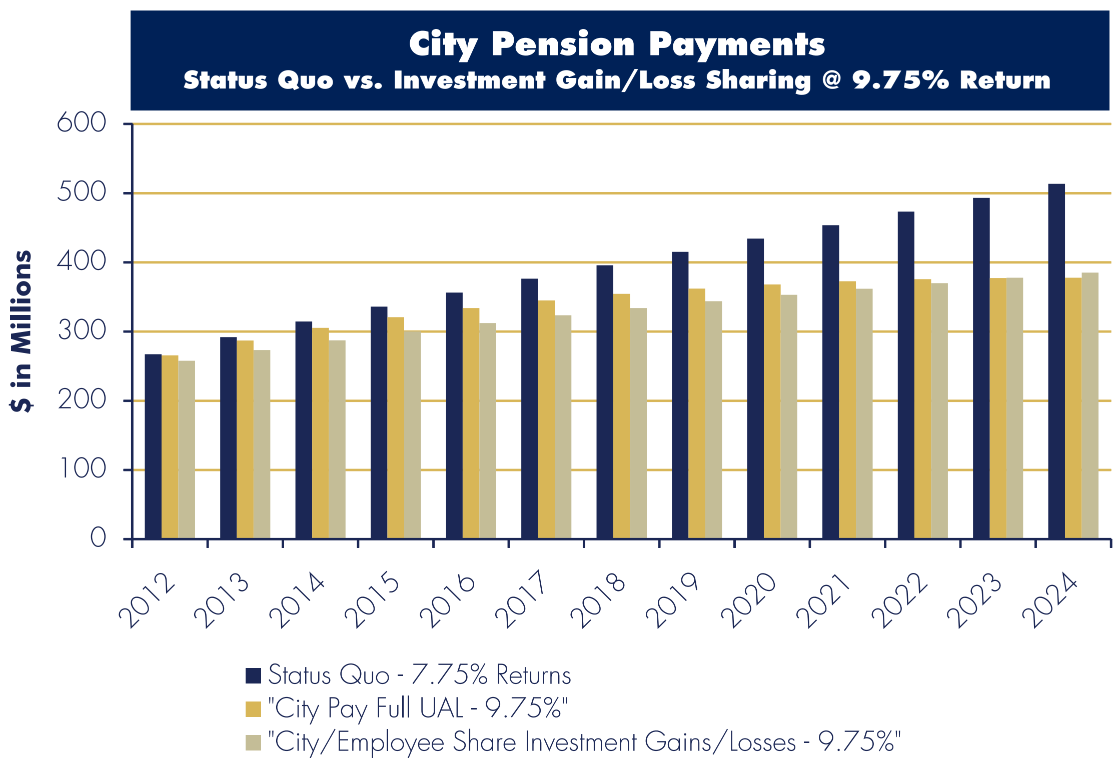
SDCERS has "argued that in a defined benefit plan the employer is generally responsible for the unfunded actuarial accrued liability." However, in her Tentative Ruling, Judge Joan M. Lewis has stated that "[i]n this case, the City's Charter and, specifically, Section 143 contains language requiring the City to contribute only an amount 'substantially equal' to that required of the employees for normal retirement allowances, as certified by the actuary, but shall not be required to contribute in excess of that amount, except in case of financial liabilities accruing under any new retirement plan or revised retirement plan because of past service of the employees."

As such, she "reject[ed] the argument that as a matter of law and with what is before [the Court] at this time, the City must entirely fund the UAL."

We obtained an actuarial model of various investment return assumptions, as well as the impact of sharing investment losses/gains between the City and employees, beginning July 1, 2001. We obtained this modeling due to the legal actions being currently pursued by the City to force SDCERS to apply "substantially equal" contributions to investment experience.

[15] Legal references in this section refer to City of San Diego vs. San Diego City Employees Retirement System. Case No: 37-2010-00091207-CU-WM-CTL


City Pension Payments
Status Quo vs. Investment Gain/Loss Sharing @ 5.75% Return
$ in Millions
700
600
500
400
300
200
100
0
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
Status Quo - 7.75% Returns
City Pay Full UAL - 5.75%
City/Employee Share Investment Gains/Losses - 5.75%


City Pension Payments
Status Quo vs. Investment Gain/Loss Sharing @ 9.75% Return
$ in Millions
600
500
400
300
200
100
0
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
Status Quo - 7.75% Returns
"City Pay Full UAL - 9.75%"
"City/Employee Share Investment Gains/Losses - 9.75%"

It is important to note that the possibility that City employees were not contributing adequately (adequately is used here to refer to contributions as required by the Charter) to the pension system was raised as early as 2004 in the Pension Reform Committee "Final Report."[16] Some of the initial progress that has been made resulted in an approximate $2 million reduction in the City's ARC payment paid on July 1, 2010 as determined by the revised June 30, 2009 actuarial valuation, which followed the SDCERS Board adoption of new contribution rates at its May 28, 2010 meeting. [17]

While the ultimate resolution of this case is still to be determined, the notion that investment losses are not the entire responsibility of the City due to the City Charter has not been dismissed. Given the remaining uncertainty, however, we do not apply any potential savings from investment gain/loss sharing to the FY 2012 budget.

Nevertheless, as the City seeks to reduce its long-term pension costs to free up finite General Fund revenues for service provision, this looming possibility may help to bolster the viability of the options explored further below due to the increased negotiating leverage gained as a result of the potential Charter-required increase in contribution rates for City employees.

Reform 4.14: Seek "Negotiated Settlement" on Pension Reform from City Labor Unions Using City Charter Section 143.1

While this office has on multiple occasions suggested that an amendment to the City Charter section 143.1-employee vote requirement be explored [18,19] , this Charter section may also provide a unique opportunity to reduce the City's pension liability.

As familiarly triggered, the section provides members of the retirement system with an effective veto power over changes to benefit levels, despite the outcome of the "Meet and Confer" process.Charter section 143.1 states, in part, that:

> *"No ordinance amending the retirement system which affects the benefits of any employee under such retire ment system shall be adopted without the approval of a majority vote of the members of said system."*

In addition to the de facto veto power over benefit changes granted to system members, this provision may provide a unique legal mechanism for changing the benefits of existing employees – a pension reform typically viewed as "off the table" due to the nature of vested benefits. [20]

As the fiduciary counsel for SDCERS has pointed out [21],

> *"One of the premises of vested rights is that the contractual right is determined based on the terms of the contract at the time that the person began working. And in the case of that contract has included since 1954, the benefit vote provision section 143.1. Therefore, the vested rights to particular retirement benefits that are provided with and in the City of San Diego (the SDCERS plan) are all subject to the possibility of modification on the appropriate vote as to the members...What we addressed in our analysis is simply the active members' rights to take away from themselves a benefit that was previously granted."*

We reference this Charter provision to remind city labor unions that, according to SDCERS counsel, they can always utilize this provision to offer their own pension reform plan using Charter Section 143.1.

Reform 4.15: Achieve Pension Savings from Downsizing and Managed Competition

Fiscal reforms implemented to balance the FY 12 budget will also pay dividends when it comes to the city's long-term pension costs. To capture those savings, we obtained an actuarial analysis of the impact of a reduction-in-force for the general membership group of employees.

16 See Pension Reform Committee "Final Report." pg 45 of 74 as an example.
17 See Revised June 30, 2009 SDCERS Actuarial Valuation, Letter of Transmittal.
18 "Legal Review of Possible Pension Reform Ideas." December 4, 2009.
19 "Amending the City Charter to Facilitate Pension Reform." January 4, 2010.
20 "Pension Benefits and Other Post-Employment Benefits." City Attorney Opinion Number 2010-1. January 21, 2010.
21 Testimony from Ashley Dunning (Manatt, Phelps & Phillips) transcribed from SDCERS Board of Administration meeting of August 20, 2010.

Given the City's apparent forthcoming efforts to subject functions to managed competition, as well as the City's legal ability to directly outsource service functions outside of the process set forth in the Managed Competition Guide [22,23] , the impact to the City's annual pension payment from reducing the number of employees is important to understand and quantify.

The impact of 10%, 20% and 30% reductions-in-force, each equally phased-in over three years, is displayed in the tables at the end of this section.

This reduction in force only applies to non-public safety members, and is intended to show the impact that the City can expect to its pension payment from various degrees of workforce downsizing.

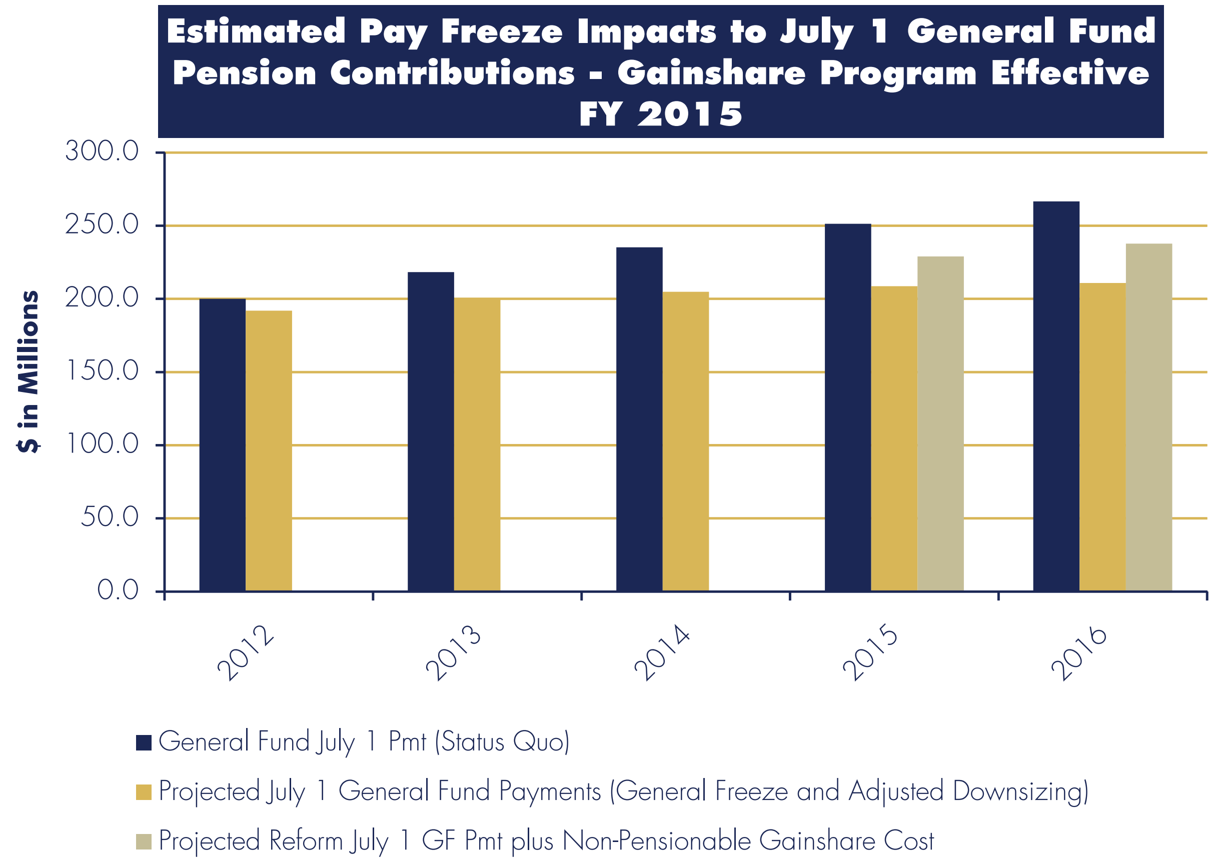
Reform 4.16: Implement a Pension Reform "Share-in-Savings" Program for City Employees

The Roadmap to Recovery recognizes that salary freezes are a major part of the financial recovery process – and those freezes will impact our city employees. To provide gain-sharing for city employees – and to offset years of salary freezes – the Roadmap proposes the creation of a "Share-in-Savings" pool to provide non-pensionable bonuses to city employees based on documented savings from pension reform.

Beginning in FY 15, the gain-sharing program would offer a performance-based, non-pensionable pay bonus. This bonus would be equal to 50% of the pension savings achieved in the FY 2015 ARC. These savings would be required to be attributable solely to cost savings from reforms (e.g. not from potential actuarial gains due to investment experience).

To provide proper accountability and oversight, the SDCERS actuary and City Auditor would be responsible for certifying that the savings attributable to the freeze in that year's payment were, in fact, the result of the pay freeze reforms. The employee bonuses would be available for distribution among City employees through a measurement methodology to-be-determined in negotiations that would reward exceptional performance.

In our Five Year forecast, we begin to share the reform gains with employees through this system in FY 2015.



[22] See City of San Diego "Managed Competition Guide." July 26, 2010, pg. 1.
[23] See City Attorney Legal Opinion Number 2009-2.

FY	Baseline Projection	Pay Freeze Savings	Downsizing Savings	Gain Share (Non-Pensionable Bonus)	Net Pmt + Bonus	Net General Fund Savings
2012	$200.0	($8.1)	$0.0	$0.0	$191.9	($8.1)
2013	$218.3	($18.0)	($0.0)	$0.0	$199.4	($18.9)
2014	$235.3	($28.8)	up to ($0.9)	$0.0	$204.9	($30.4)
2015	$251.3	($40.7)	up to ($1.6)	$20.4	$229.0	($22.3)
2016	$266.6	($53.8)	up to ($1.9)	$26.9	$237.8	($28.9)

**All payments are adjusted to reflect the General Fund portion paid in full on July 1 of each year.*

Detailed Actuarial Tables on Impact of Pension Reforms

Chart 1: Freeze in "Pensionable Pay"
As the actuarial analysis shows, the City has the ability to significantly reduce its annual pension payment and achieve annual General Fund savings by holding the line on salary increases.

FY	Baseline Projections				Hard Pay Freeze - 4% Entry Age Normal Savings Assumed				Projected General Fund (Savings)
	Citywide			General Fund	Citywide			General Fund	
	Mid-Year Pmt	% of Payroll	July 1 Pmt	July 1 Pmt	Mid-Year Pmt	% of Payroll	July 1 Pmt	July 1 Pmt	
2012	267.4	45.18%	257.1	200.0	251.6	46.89%	241.9	188.2	(11.8)
2013	291.9	47.41%	280.6	218.3	262.8	48.98%	252.7	196.6	(21.7)
2014	314.6	49.14%	302.4	235.3	271.1	50.51%	260.5	202.7	(32.6)
2015	336.0	50.46%	323.0	251.3	276.6	51.54%	265.8	206.8	(44.5)
2016	356.5	51.48%	342.7	266.6	279.6	52.11%	268.8	209.1	(57.5)
2017	376.4	52.26%	361.8	281.5	280.4	52.25%	269.5	209.7	(71.8)
2018	395.9	52.85%	380.5	296.1	279.0	52.00%	268.2	208.7	(87.4)
2019	415.2	53.30%	399.1	310.5	275.5	51.34%	264.8	206.0	(104.5)
2020	434.4	53.62%	417.6	324.9	269.9	50.29%	259.4	201.8	(123.1)
2021	453.8	53.85%	436.2	339.3	262.1	48.84%	251.9	196.0	(143.3)
2022	473.3	54.01%	455.0	354.0	252.1	46.98%	242.3	188.5	(165.5)
2023	493.3	54.12%	474.1	368.9	239.8	44.68%	230.5	179.3	(189.6)
2024	513.6	54.19%	493.7	384.1	225.0	41.92%	216.2	168.2	(215.9)

Notes: $ are presented in millions *June 30, 2009 actuarial valuation (published January 2010) utilized for analysis.*

Chart 2: Impact on Annual Pension Payment from 10-30% Downsizing of City Workforce

FY	Baseline Projections				10% General Reduction-in-Force (3-Year Phase-In)				Projected General Fund (Savings)
	Citywide			General Fund	Citywide			General Fund	
	Mid-Year Pmt	% of Payroll	July 1 Pmt	July 1 Pmt	Mid-Year Pmt	% of Payroll	July 1 Pmt	July 1 Pmt	
2012	267.4	45.18%	257.1	200.0	265.8	46.33%	255.5	198.8	(1.2)
2013	291.9	47.41%	280.6	218.3	289.1	49.47%	277.9	216.2	(2.1)
2014	314.6	49.14%	302.4	235.3	311.2	51.71%	299.2	232.7	(2.5)
2015	336.0	50.46%	323.0	251.3	332.5	53.13%	319.6	248.7	(2.6)
2016	356.5	51.48%	342.7	266.6	352.9	54.22%	339.2	263.9	(2.7)
2017	376.4	52.26%	361.8	281.5	372.6	55.05%	358.2	278.7	(2.8)
2018	395.9	52.85%	380.5	296.1	392.0	55.68%	376.8	293.2	(2.9)
2019	415.2	53.30%	399.1	310.5	411.2	56.16%	395.3	307.5	(3.0)
2020	434.4	53.62%	417.6	324.9	430.3	56.51%	413.6	321.8	(3.1)
2021	453.8	53.85%	436.2	339.3	449.5	56.76%	432.1	336.2	(3.2)
2022	473.3	54.01%	455.0	354.0	469.0	56.94%	450.8	350.7	(3.3)
2023	493.3	54.12%	474.1	368.9	488.8	57.06%	469.8	365.5	(3.4)
2024	513.6	54.19%	493.7	384.1	509.0	57.14%	489.3	380.7	(3.5)

Note: $ are presented in millions

June 30, 2009 actuarial valuation (published January 2010) utilized for analysis

FY	Baseline Projections				20% General Reduction-in-Force (3-Year Phase-In)				Projected General Fund (Savings)
	Citywide			General Fund	Citywide			General Fund	
	Mid-Year Pmt	% of Payroll	July 1 Pmt	July 1 Pmt	Mid-Year Pmt	% of Payroll	July 1 Pmt	July 1 Pmt	
2012	267.4	45.18%	257.1	200.0	264.2	47.54%	253.9	197.6	(2.4)
2013	291.9	47.41%	280.6	218.3	286.5	51.63%	275.4	214.3	(4.0)
2014	314.6	49.14%	302.4	235.3	308.0	54.44%	296.1	230.4	(4.9)
2015	336.0	50.46%	323.0	251.3	329.2	55.95%	316.5	246.2	(5.1)
2016	356.5	51.48%	342.7	266.6	349.5	57.11%	336.0	261.4	(5.3)
2017	376.4	52.26%	361.8	281.5	369.1	58.00%	354.8	276.1	(5.4)
2018	395.9	52.85%	380.5	296.1	388.4	58.68%	373.3	290.5	(5.6)
2019	415.2	53.30%	399.1	310.5	407.4	59.19%	391.7	304.7	(5.8)
2020	434.4	53.62%	417.6	324.9	426.5	59.57%	409.9	318.9	(6.0)
2021	453.8	53.85%	436.2	339.3	445.5	59.84%	428.3	333.2	(6.1)
2022	473.3	54.01%	455.0	354.0	464.9	60.04%	446.9	347.7	(6.3)
2023	493.3	54.12%	474.1	368.9	484.6	60.17%	465.8	362.4	(6.5)
2024	513.6	54.19%	493.7	384.1	504.7	60.26%	485.1	377.4	(6.7)

Note: $ are presented in millions

June 30, 2009 actuarial valuation (published January 2010) utilized for analysis.

FY	Baseline Projections				30% General Reduction-in-Force (3-Year Phase-In)				Projected General Fund (Savings)
	Citywide			General Fund	Citywide			General Fund	
	Mid-Year Pmt	% of Payroll	July 1 Pmt	July 1 Pmt	Mid-Year Pmt	% of Payroll	July 1 Pmt	July 1 Pmt	
2012	267.4	45.18%	257.1	200.0	262.6	48.79%	252.4	196.4	(3.6)
2013	291.9	47.41%	280.6	218.3	284.0	53.89%	273.0	212.4	(5.9)
2014	314.6	49.14%	302.4	235.3	305.1	57.31%	293.2	228.1	(7.1)
2015	336.0	50.46%	323.0	251.3	326.2	58.92%	313.5	243.9	(7.4)
2016	356.5	51.48%	342.7	266.6	346.3	60.15%	332.9	259.0	(7.6)
2017	376.4	52.26%	361.8	281.5	365.9	61.10%	351.7	273.6	(7.9)
2018	395.9	52.85%	380.5	296.1	385.0	61.83%	370.1	287.9	(8.1)
2019	415.2	53.30%	399.1	310.5	404.0	62.38%	388.3	302.1	(8.4)
2020	434.4	53.62%	417.6	324.9	422.9	62.78%	406.5	316.3	(8.6)
2021	453.8	53.85%	436.2	339.3	441.9	63.08%	424.7	330.4	(8.9)
2022	473.3	54.01%	455.0	354.0	461.1	63.29%	443.2	344.8	(9.2)
2023	493.3	54.12%	474.1	368.9	480.6	63.44%	462.0	359.5	(9.4)
2024	513.6	54.19%	493.7	384.1	500.7	63.54%	481.3	374.4	(9.7)

Note: $ are presented in millions

June 30, 2009 actuarial valuation (published January 2010) utilized for analysis

Chart 3: Shifting Investment Risk with "Substantially Equal" Mandate

The chart below shows the impact of a simplistic assumption that any increase in the SDCERS rate has an equal impact on both the City and the employee rate – at various rates of investment returns. (It should be noted, however, that the employee rate would need to be slightly adjusted to reflect that a change in employee contributions will have an impact on potential refunds of employee contributions.)

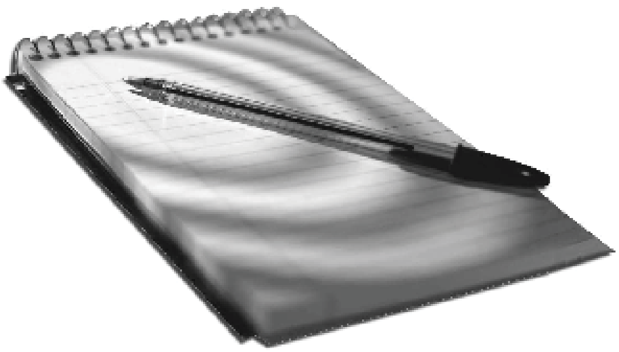
FY	Current Assumptions, (7.75%)	City Pay (5.75%)	City Share (5.75%)	(Savings) Due to Sharing Investment Losses (5.75%)	City Pay (9.75%)	City Share (9.75%)	(Savings) Due to Sharing Investment Losses (9.75%)
2012	267.4	269.0	259.5	(9.5)	265.8	257.9	(7.9)
2013	291.9	296.5	278.1	(18.4)	287.2	273.4	(13.8)
2014	314.6	323.6	296.6	(27.0)	305.4	287.5	(17.9)
2015	336	350.5	315.3	(35.2)	320.9	300.4	(20.5)
2016	356.5	377.7	334.2	(43.5)	334.1	312.4	(21.7)
2017	376.4	405.4	353.7	(51.7)	345.2	323.6	(21.6)
2018	395.9	433.7	373.7	(60.0)	354.5	334.1	(20.4)
2019	415.2	463.0	394.3	(68.7)	362.1	343.9	(18.2)
2020	434.4	493.2	415.7	(77.5)	368.2	353.2	(15.0)
2021	453.8	524.6	437.8	(86.8)	372.7	361.9	(10.8)
2022	473.3	557.2	460.8	(96.4)	375.8	370.1	(5.7)
2023	493.3	591.4	484.9	(106.5)	377.5	377.9	0.4
2024	513.6	627.0	509.9	(117.1)	377.9	385.3	7.4

*All payments are adjusted to reflect the General Fund portion paid in full on July 1 of each year.

**We have estimated downsizing savings as 75% of the savings projected by our actuary, as well as lagged the savings by two years to reflect procedural delays in Managed Competition. The studies we obtained examined savings from each of these reforms in isolation. Thus, their impact cannot simply be added together to produce accurate projections. Further, we purposely applied the more conservative pay freeze estimates we obtained. An actuarial analysis would need to be performed that assumed both of the reforms were taking place simultaneously to arrive at a more precise figure.

Commitment 5: Reform City Salaries and Labor Contracts

City labor contracts should be reformed and net compensation for city employees should be benchmarked to the local labor market.



Over the years, salaries and benefits awarded to City employees have been steadily increased –even during times of fiscal crisis for the City.

Among the problems with the current system of city labor contracts:

- Salary increases are not based on merit, but collective bargaining and longevity.
- City labor contracts now have a byzantine structure of requirements that limit the discretion of city manage ment to hold workers accountable for results.
- Overly-generous vacation policies are enabling city employees to bank significant leave balances – and receive annual cash payouts for accumulated leave
- Base salaries do not tell full story of city employee compensation – with a complicated and opaque set of "specialty" pays added on to base salaries for city employees in each union

As San Diego taxpayers have seen pay freezes, pay cuts, and job losses, city employees have actually fared quite well by comparison. Our indicator of this fact is the growth of the number of city employees earning over $100,000 in city government over the past decade – and in particular since the economy has soured.

March 2010 Compensation Report: Number Employees Earning Over $100,000 is 44% Higher Than 2 Years Ago

CY	FY	Citywide Annually Budgeted FTEs[1]	Number of 100K Members[2]	Annual % Change	100K Members as % of Budgeted FTEs
2003	2004	11,269	483	N/A	4.29%
2004	2005	11,071	644	33.33%	5.82%
2005	2006	10,834	753	16.93%	6.95%
2006	2007	11,391	770	2.26%	6.76%
2007	2008	10,787	874	13.51%	8.10%
2008	2009	10,729	1,255	43.59%	11.70%
2009	2010	10,572	1,265	0.80%	11.97%

[1] FY 2004 figures taken from FY 2005 Annual Budget
FY 2005 – FY 2007 figures taken from FY 2007 Annual Budget
FY 2008 – FY 2009 figures taken from FY 20009 Annual Budget
FY 2010 figures taken from FY 2010 Annual Budget
[2] City of San Diego

The city's labor costs must be reformed – to bring total compensation packages for city employees down to levels commensurate with San Diego's local labor market. Put simply, city employees should receive no more, and no less in compensation for the same kind of work done in the private sector or non-profit sector locally.

FY 2012 Changes

Reform 5.1: Implement a 2% General Salary Reduction (Non-Public Safety) – and Freeze Base Salaries for Five Years

Many government agencies have implemented furlough programs. In the past, some city labor unions have proposed expanded furloughs in lieu of salary reductions. It should be noted that furloughs might result in impact to service levels depending on how they are implemented. Worse, as is the case with the MEA furlough program, furloughs allow for special assignment pays to be calculated based on a full base rate before subtracting pay for the mandatory furlough, and also does not reduce the amount of SDCERS pensionable compensation.[3]

To achieve balance in FY 2012 without expanding furloughs, the Roadmap to Reform includes general salary reductions of 2% for MEA, DCAA and all Unclassified/Unrepresented employees from the status quo, or baseline. This is estimated to produce General Fund savings of $3.9 million for MEA and DCAA, plus any savings from a 2% salary reduction to unrepresented employees.

The five-year freeze in salaries is consistent with the Mayor's proposed financial forecast. More importantly, as outlined in Commitment 4 on Pension Reform, a five-year base salary freeze is absolutely essential to reducing long-term pension costs in city government - by freezing "pensionable pay" for city employees.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City-Wide	MEA and DCAA 2% Base Salary Reductions	NA	$3.25 Million*
City-Wide	Unclassifieds 2% Base Salary Reduction	NA	TBD*

NOTE: We recommend that any reduction taken here should be taken as the city's starting position in labor negotiations with Police and Local 127 in FY 13.

Reform 5.2: Reform "Special Pays" Throughout the City's Budget

In addition to base compensation (salaries and wages), the City of San Diego includes additional compensation components in the FY 2011 General Fund budget, many of which are considered "special pays."

Over the years, the labor unions have used "special pays" to spike take-home earnings of city employees - and increase "pensionable pay". The result has been a costly system that lacks true transparency on city employee compensation levels. Worse, the myriad of special pays has resulted in numerous accounting headaches – particularly in the transition to the new ERP system.

In this section, the Roadmap tackles the elimination of some "special pays" to achieve FY 2012 budget savings and explores changing the methodology under which they are calculated.

As a general principle, our office does not agree with the use of special pays as a salary increase for all affected employees because it reduces transparency and potentially creates a false notion of a "pay freeze," when in fact increases in special pays may be occurring. Furthermore, we also believe that special pays cease to be "special" when they are provided to essentially all employees covered under a labor contract.

Instead, we believe that "special pays" should be reserved for activities that go well beyond basic job requirements (e.g. "bomb squad" pay).

Currently, many special pays are calculated as a percentage of base pay, as opposed to a flat dollar amount. This has the impact of triggering an increase in the cost of special pays to the City whenever a general salary increase is enacted. The City can guard itself against these cost increases in the future by negotiating a change in the current calculation methodology for some special pays to a flat dollar amount.

* We must note that data segregated into bargaining unit and General Fund was not available to our office. As a result, we can only estimate the financial impact of these reductions based on very limted information. We attempted to obtain the data from the Office of the Independent Budget Analysis, but the city's financial system could not correctly provide the necessary information.

[3] "Frequently Asked Questions and Answer Re: Mandatory Furlough and the SPSP Waiver vs. Pay Deduction Option."

While eliminating these pays may in some cases be warranted, there may be other cases where the City finds it prudent to provide special pay.

The table below provides a summary of the various reform options the City can pursue regarding the various specialty pays currently provided under labor contracts.

Descriptive Item	Option 1	Option 2	Option 3
	Reduce Special Pay	Change Methodology	Change Pensionable Status
Meet and Confer?	Yes	Yes	Yes
Legal Authority?	Yes	Yes	Potentially; Case by Case
Hard Budget Savings	Yes	Potentially - Depends on Pay Amount	No
Pension Actuarial Savings	Yes, if particular pay is pensionable	Potentially - Depends on Pay Amount	Yes

Suspend EMT 8.5% Special Pay: ($4.83 million)
Our office has previously opined on the cost savings available from eliminating a specialty pay provided to essentially all firefighters for holding an EMT certificate -- even though an EMT certificate is a basic requirement of the job. Particularly when the City finds itself in serious financial difficulties and has browned-out fire stations, we do not believe that providing a special pay of 8.5% of base salary for a basic requirement of all applicants for a position with the Fire Department is warranted.

As the IBA has noted, 86% of calls responded to by the Fire Department are medical in nature[4]. This data suggests that medical response is overwhelmingly the primary function of City firefighters, which justifies a continuation of the practice of requiring an EMT certificate as a basic job qualification.

It is our understanding that eliminating the EMT specialty pay will reduce pensionable payroll, as this special pay is considered “base earnings” in the addendum submitted to SDCERS each year along with the Salary Ordinance. Therefore, we expect actuarial savings to result, providing pension experience gains.

Eliminate Fire Administrative Assignment Pay: ($719,348)
The City currently provides a 15% special pay for administrative assignment, or “desk pay” under its current labor contract with the Fire Department. We propose eliminating this special pay to achieve a savings of $719,348.

As in the case of EMT special pay, Administrative Assignment pay is also considered “pensionable.” Eliminating this pay is expected to result in actuarial gains beyond the immediate budget impact.

Master Degree Library Pay: ($262,397)
We recommend elimination of the 5% Master Degree Library pay in upcoming labor negotiations with MEA due to the City’s financial condition and criteria we have previously stated for special pays.

Additional MEA Specialty Pays
In addition to the Master Degree Library Pay, the MEA labor contract lists a number of additional pays and reimbursement rates that should be reviewed and trimmed. The Roadmap establishes a hard target for reduction of $1.5 million from the MEA contract through special pay reform.

[4] See IBA Report 10-76.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
Fire Department	Eliminate 8.5% Specialty Pay for EMT Certifications – these are already basic requirements for hiring in the department	NA	$5,000,000
Fire Department	Eliminate 15% "desk pay" premium for administrative duties	NA	$719,348
Library Department	Eliminate Masters Degree Specialty Pay for Librarians	NA	$262,397
City-Wide	Reduce 50% of Special Pays Remaining in MEA Contract	NA	$1,500,000

Reform 5.3 End Terminal Leave

The City Council has voted once to eliminate Terminal Leave, which allowed employees separating from City employment to accrue service time, benefits and additional leave with any unused leave they had accrued prior to separation. The annual savings of this reform have been estimated with a range of $120,000 - $1.2 million, although the City Council must vote once more to codify the elimination of this benefit. This reform will also generate long-term taxpayer savings by preventing city employees from using Terminal Leave to increasing their pensions by padding their years of service.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City-Wide	Terminal Leave Savings	NA	$120,000

Reform 5.4 Reform Management Leave and Management Vehicle Allowances

Given the gravity of the city's financial challenges, the City should immediately suspend management leave and all management vehicle allowances.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City-Wide	Floor on savings from eliminating Management Leave and Management Vehicle Allowance	NA	$50,000

Reform 5.5 Reform Holiday and Leave Policies

City employees are provided with extremely generous holiday and personal leave benefits – which cost taxpayers when overtime is incurred and when this leave time is cashed out by employees.

Maximum Accumulation of Leave:
On a go forward basis, city employees should not be allowed to accumulate more than 240 hours of leave time. General city employees should receive no more than 120 hours of leave time per year.

Reform and Cap on "Pay In Lieu" Amounts:
Some city labor contracts allow employees to receive "pay in lieu of leave" amounts each fiscal year. In FY 10, according to preliminary close out reports, more than $6.1 million in General Fund payouts occurred due to this policy. (Note: As the Comptroller's Office reconciles and completes its close out under the ERP system, these numbers will be finalized.)

For all labor contracts the City should mandate that any future leave time accrued can only be paid out upon termination of employment. If the City Attorney determines that this policy change can immediately be applied to current leave time accrued, then that reform should be explored, taking into account potential management impacts.

Reduction in City-Wide "Floating" Holiday:
Given the generous leave policies up to this point have allowed many city employees to accrue significant leave balances, the "floating holiday" policy should be suspended for all labor unions, starting with contracts up in FY 12 and completing this reform in FY 13.

Review Leave Policies in Fire Union Contract
The City should examine the appropriateness of reducing holiday and personal leave allowances for fire fighters given the unique work schedule they have.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City-Wide	Reform "Pay in Lieu" Amounts and Accrual of Leave Time	NA	TBD

Long-Term Changes

Reform 5.6 Cross-Cut Reform: Provide for "Share-in-Savings" Bonuses for City Employees in FY 15 and 16

As outlined in the preceding section on reducing and freezing "pensionable pay" to achieve reform, we propose that city employees be eligible for compensation increases in the last two years of the five year financial recovery plan period – provided that savings from reduced pension payments are achieved through the enactment of reforms.

Policies on how those savings will be distributed to employees will be a subject of "meet and confer" with a not-to-exceed cap on payouts determined by savings attributed to the reforms.

It is anticipated that savings generated through pension reform will allow employees during the last two years of this financial recovery process to "catch up" on compensation increases.

Reform 5.7 Reform How Step Increases Are Provided

Under Personal Regulations of the civil service system at the City of San Diego, nearly 2,000 salary increases are granted each year, as "merit," or "step" increases. Some of these increases are triggered by service time rendered by a City employee at a particular position.

For example, Personnel Regulations outline that "[e]xcept as otherwise provided in current Management policies or current ratified memoranda of understanding, full-time salaried employees are considered for normal one-step increases upon completion of" various amounts of service time[5].

Summary statistics regarding these salary increases for the past two fiscal years and through October 5th of FY 2011 are provided in the table below.

Step/"Merit" Increases - FY 2009 - FY 2011[6]			
	FY 2009	FY 2010	FY 2011 (through Oct. 5, 2010)
# of Increases	1,992	2,038	644
Avg. % Salary Increase	5.9%	5.71%	5.69%
Annualized Aggregate Salary Increase[7]	$5.6 million	$5.4 million	$1.7 million

6 Personnel Regulations, Personnel Manual. Index Code H-8, pg. 2.
6 City of San Diego Personnel Department
7 We assume that all hourly raises are attributable to 40-hour work weeks for simplicity. These annualized figures would be overstated in the event any employees worked part-time.

As the table on the left shows, the longevity-based "merit" or "step" increases have cost the City approximately $5.5 million annually (citywide) over the past two fiscal years[8]. This is important to note because while the City has not provided general salary increases in its recent labor contracts, payroll has still increased due to these merit increases.

In upcoming labor negotiations, the City could propose to suspend these step increases in an effort to obtain a true, or "hard" pay freeze.

However, the City's ability to impose a step increase suspension in the event that its labor unions do not agree to such terms is more legally complex because of potential issues and requirements of the City Charter.

As a result, we do not score any savings from suspension of step increases into our solutions. However, we do recommend that addressing these automatic pay raises be included as part of the City's long-term strategy for resolving its structural deficit. As a long-term goal, Charter Section 130 should be amended to ensure the City can control its entire payroll, which is an important method the City has to control annual pension costs.

Compensation Reductions Common in Private Sector

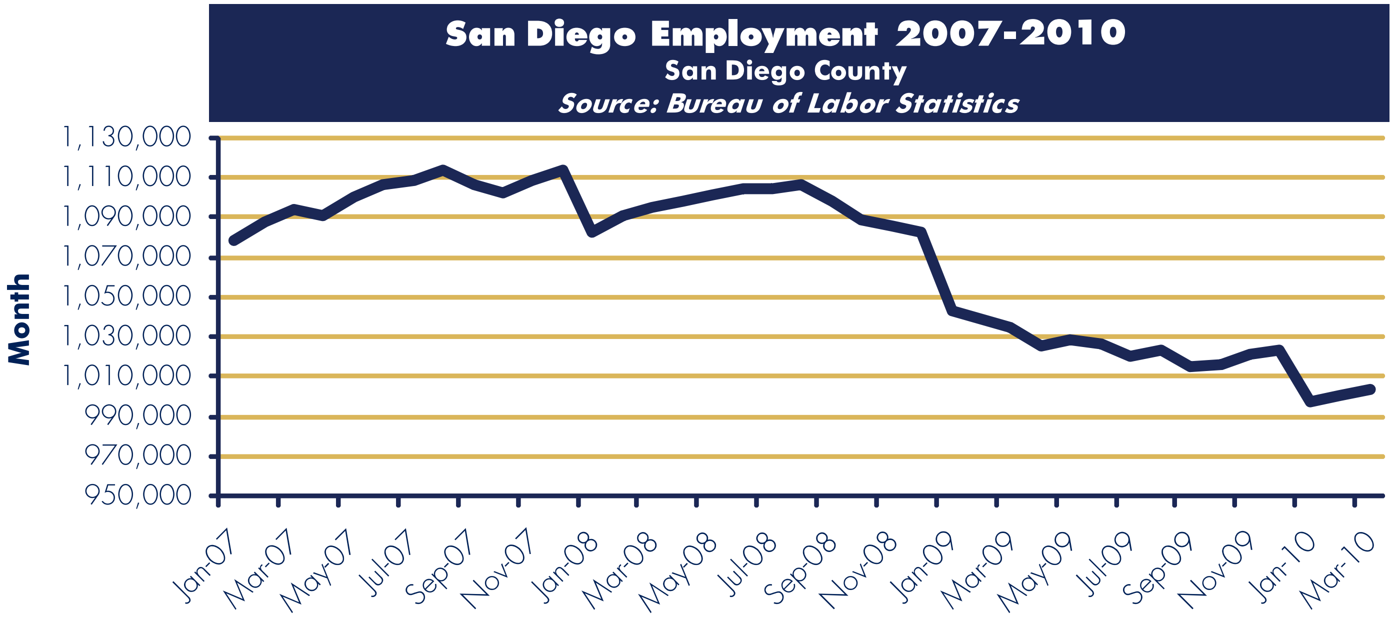
As part of our solution to the FY 2012 budget deficit and the solution to the long-term pension crisis, the Roadmap to Recovery proposes to make some reductions in city employee compensation – ranging from a reduction of 5% for some employees to as much as 8.5%.

According the National Bureau of Economic Research, in December 2007 the United States economy entered one of its largest and longest recessions in recent history. The affects of the recession permeated nearly every industry and region in the country, including San Diego.

Since 2007, San Diego County has experienced business closures, rising unemployment, and falling wages. The following presents a snapshot of how this recent recession has impacted San Diego's private economy.

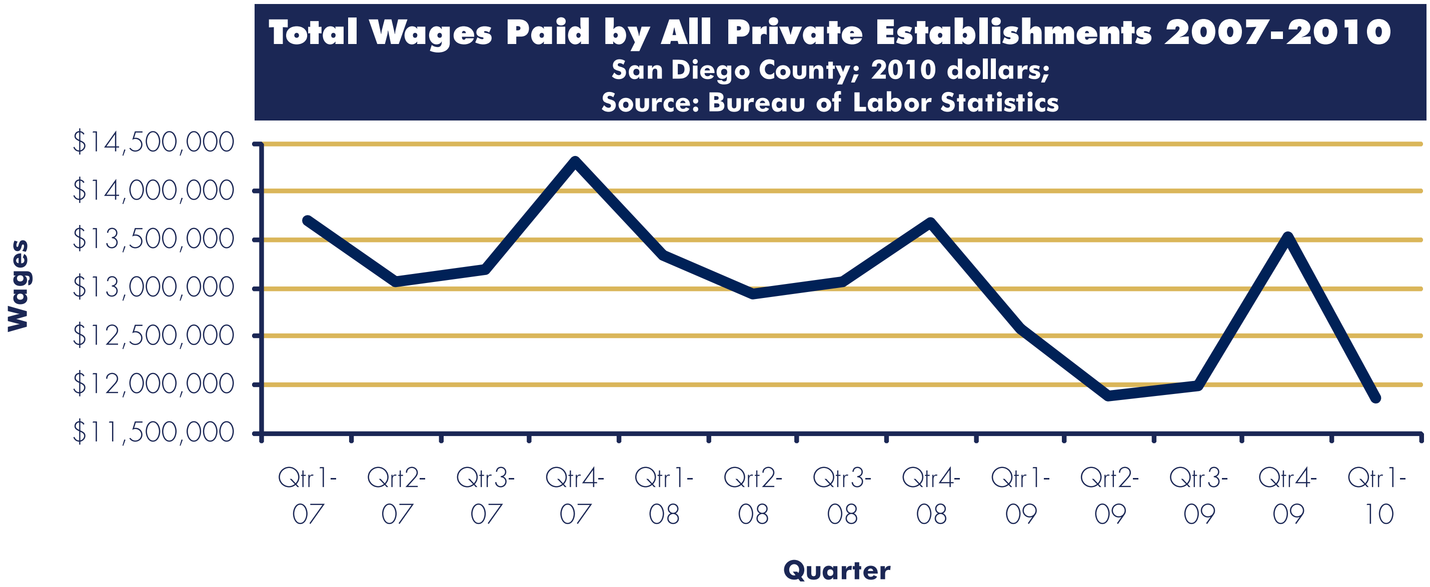
Reductions in Employment[9]

Between March 2007 and March 2010, private employment in the San Diego County shrank from 1,095,301 to 1,004,005, a reduction of 91,296 jobs (8.34% of all private jobs in the County). A large portion of these job losses came during the period corresponding to the City's FY 2009 (July 2008 – June 2009). During this period private employment in San Diego County shrank by 77,764 jobs (7.04% of all private jobs). In January 2010, employment in San Diego County totaled only 997,279, the lowest total during any month since January 2001, despite a 4.58%[10] increase in the County's population over this period.



[8] The data provided to our office includes hourly and salary employees. We have annualized all hourly increases into 52, 40-hour workweeks. In the event any of these employees are working less than full time, our annualized savings will be overstated.
[9] Figures derived from BLS Data Series: All Industry Private Employment in San Diego County.
[10] This increase does not exactly correspond to the dates mentioned, as they are based of U.S. Census point estimates in July not January.

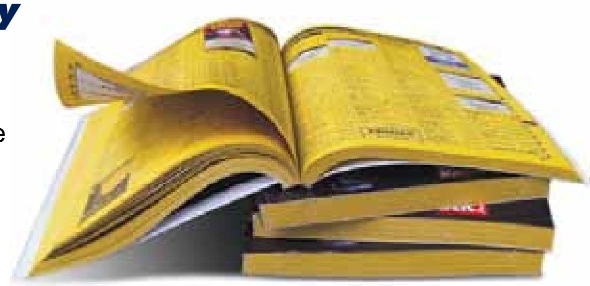
Average Private Sector Wages Decreased by 13.39%[11]
Total wages paid by the private sector decreased by $1.83 million or 13.39% between the first quarter of 2007 and the first quarter of 2010. Wages paid in the first quarter of 2010 were the lowest total wages of any corresponding period during the past decade.[12] While total annual private wages in 2009 were at their lowest since 2003. Average annual private wages per employee were $48,5805 in 2007. By 2009, annual private wages per employee dropped $557 (1.15%) to $48,023.



[11] Figure derived from BLS Data Series: Quarterly Census of Employment and Wages, All Industry, Privately-Owned in San Diego County. All figures are inflation adjusted using BLS CPI for San Diego Metropolitan Area.
[12] When figures are considered in 2010 dollars.
[13] In 2009 dollars.

Commitment 6: Fair and Open Competitive Bidding

To achieve efficiencies in city operations and implement the will of the voters, open and fair competitive bidding on city services should be conducted on a regular basis.



San Diego voters overwhelmingly approved Prop C in 2006 to require the city to use competitive bidding to achieve taxpayer savings. Unfortunately, now more than four years later, not one single service has been subjected to competitive bidding under Prop C – with millions in cost savings forgone as a result.

At its most basic level, competitive bidding of services is a powerful tool for improving quality and saving money when properly implemented. Competition in services involves the examination of an activity of an agency to determine whether the activity should continue to be carried out within the agency or should be purchased from an outside entity. Put simply, should the agency "make" or "buy" this activity.

Yet in a larger sense, competition goes beyond the decision to "make" or "buy" to examine such considerations such as:

- Whether an activity is needed in the first place
- Whether an activity should be "re-engineered" to be more efficient
- Whether an activity should be "sourced" differently, either through another staff unit, another agency, a non-profit organi zation, a program partner, or a private-sector vendor.

The issue of improving "performance" should dominate the three considerations above—with the concept of "competition" driving the process to ensure the best sourcing solution is adopted by the agency. However, true "competition" can only be achieved when multiple players are competing under a fair and transparent process where performance results expected from the activity in question are clear.

The Roadmap to Recovery not only seeks to jumpstart competitive bidding of city services, but challenges the city to improve contract management and oversight.

The Roadmap also embraces the notion of "Strategic Sourcing" whereby the purchases by city departments are viewed collectively – with opportunities for savings achieved at a city-wide level. Finally the Roadmap examines ways the city can contract or lease out its existing assets to private operators to produce savings and/or new income streams to provide General Fund services.

FY 2012 Changes

Reform 6.1 Using "Strategic Sourcing" to Reduce Contracts for Consulting Services and Supplies

The City of San Diego has a myriad of contracts with outside firms for

Using The Yellow Pages Test

Stephen Goldsmith, former mayor of Indianapolis and current deputy mayor of New York City, is one of the most accomplished practitioners of competition and privatization. He has long recommended a simple guide to competition—the yellow pages test.

"If the phone book lists three companies that provide a certain service, the [government] should not be in that business, at least not exclusively. The best candidates for marketization are those for which a bustling competitive market already exists. Using the yellow pages test, [you] can take advantage of markets that have been operating for years."

– Stephen Goldsmith

consulting services, support services, and the provision of commodities and goods. After excluding contracts for public works projects, the City spends more than $132 million annually on contracts for supplies and services.

"Strategic Sourcing" refers to efforts on the part of organizations to examine the entirety of their contracts and procurements of services, goods and commodities to carefully evaluate ways to reduce expenses through reduced purchases, securing of bulk rates and discounts, and enhance the depth and management of relationships with suppliers.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City-Wide	5% reduction in supplies and services budgets (excluding Police/Fire)	NA	$4,200,000

The Roadmap to Recovery believes an immediate easy target of a 5% reduction in Contracts and Supplies can and should be implemented for the General Fund. Our plan excludes Police and Fire from these cuts, bringing the General Fund total 5% reduction from $5.3 million down to a proposed reduction of $4.2 million[1].

Reform 6.2 Complete Competitive Bidding (Using Managed Competition or Direct Outsourcing) on 11 Functions in FY 2012

With the passage of the Managed Competition Guide, the City took a step toward implementing Proposition C from November of 2006, which called for the competitive bidding for providing City services between the private sector and City employees.

Unfortunately, our office does not believe that the adopted version of the Managed Competition Guide represents fair and open competition as called for by voters.

This opposition is attributable to the exclusion of retirement costs on top of a 10% bid advantage for City employees built-in to cost comparisons and the opportunity for delays due to excessive "meet and confer" requirements. The Guide also excludes the cost of under-funded retiree health care benefits and pension liabilities – and excludes the potential savings from outsourcing on these two costly budget line-items.

Given the risk of reduced private sector bid interest created by the adopted version of the Managed Competition Guide, the ability of the City to pursue competitive bidding outside of the current Guide is important. As the City Attorney has opined[2]:

> *"The City may outsource work performed by City employees in complance with the City Charter and state collective bargaining laws… Charter section 117(c) provides broad authority to contract out the work of classified, civil service employees when the Mayor determined, subject to City Council approval, City services can be provided more economically and efficiently by independent contractors."*

The Managed Competition Guide also states that the City[3]:

> *"…reserves its rights regarding any alternate process permitted under Charter section 117(c) to determine when city services can be provided more economically and efficiently by an independent contractor than by persons employed in the Classified Service while maintaining service quality and protecting the public interest."*

If the Managed Competition Guide fails to produce adequate savings from fair and open competition, the City may have to utilize a Direct Outsourcing Process outside of the Guide, as described above.

Provided that competitions are conducted on a fair and level playing field, when the City put the Help Desk function from the Data Processing Corporation out for competitive bidding it achieved a commendable 47% cost savings on the function.

Our savings estimates assume an average of 15% cost savings from current budgeted levels – discounted from national cost savings models due to the use of pre-existing contract services and payments in some of the functions examined.

[1] "Fiscal Year 2011 Contracts and Supplies 5% Reduction Analysis." Mary Lewis, CFO. August 6, 2010.
[2] City Attorney Opinion Number 2009-2. "Outsourcing City Services." October 8, 2009.
[3] City of San Diego "Managed Competition Guide." July 26, 2010.

Our cost savings methodology is derived from data in the City's adopted budget, reports published by the Office of the Independent Budget Analyst and savings estimates provided by the Mayor's office in relation to estimates for the Proposition D (2010) fiscal impact analysis. The savings are also within the savings ranges estimated for the City of San Diego by independent research[4].

Furthermore, we have discounted our cost saving estimates for FY 12 to assume an implementation timeline of approximately 12-14 months -- meaning that savings begin to accrue half-way through FY 12.

Finally, the benefits to the City of implementing competitive bidding for services is not limited to direct cost savings (including reduction-in-force pension impacts). It also has the potential to serve as a key component of further pension reform efforts by providing active employees with the incentive to lower their cost structure in order to remain competitive.

In fact, our budgetary savings estimates outlined below do not take into account any savings to the City's pension payment resulting from a potential reduction in force due to competitive bidding. (To this point, our actuarial analysis projects savings of $1.2 million for the first year of a general membership 10% reduction-in-force, phased-in over 3 years. Further detail is provided in the Pension Commitment of this Roadmap.)

Time is of the essence in making competitive bidding work for taxpayers in the FY 2012 budget. As such, by no later than December 15, the City Council should authorize the Mayor to proceed forward with competitive bidding on all of the functions outlined in this Roadmap – and delegate the development of Statements of Work to the Mayor.

To comply with the current Managed Competition Guide, the City Council should receive an informational report on the SOW's and provide feedback if necessary for the Mayor to incorporate as he sees fit. Between May 1 and September 1, 2011 the results of the competitions should be presented to the City Council for approval.

Transition of the functions that are outsourced should occur no later than January 1, 2012.

PRIORITY FUNCTIONS FOR MANAGED COMPETITION

Departmental Budget	Line Item	FTE Impact	General Fund Savings (Annual)	General Fund Savings (FY12)
Environmental Services Department	Trash Collection Services	0 to 110.80	$4,397,265	$2,198,633
Park and Recreation	Maintenance	0 to 56	$488,301	$244,150
Park and Recreation	Facilities Operations	0 to 123.14	$1,405,231	$702,615
Park and Recreation	Beaches and Shoreline Maintenance	0 to 17	$809,065	$404,532
Park and Recreation	City-Wide Park Maintenance	0 to 95	$1,566,468	$783,234
Park and Recreation	Parks and Buildings Maintenance	0 to 97.82	$1,442,099	$721,049
General Services	Facilities	0 to 98	$1,840,541	$920,271
General Services	Fleet and Auto Maintenance (includes analysis of vehicle utilization)	0 to 249	$5,432,400	$2,716,200
General Services	Print Shop and Publishing	0 to 25	$101,366	$50,683
Storm Water	Street sweeping function	0 to 42	$733,960	$366,980
Information Technology	Data Processing Corporation and City IT [includes strategic sorcing study]	0 to 80	$5,000,000	$2,500,000

TOTAL POSITIONS: 0 to 1,000
ESTIMATED FY 2012 SAVINGS: $11,626,984

[4] Bruvold, Erik, Gilory, Leonard, Segal, Geoffrey and Summers, Adam. "Streamlining San Diego: Achieving Taxpayer Savings and Government Reforms through Managed Competition." September 1, 2007.

In addition to the functions above, the City may also want to consider initiating competitions on the following functions in FY 12 should time permit:

- Swimming pool maintenance
- Book binding and technical services (library)
- Traffic operations support
- Parking meter maintenance

Reform 6.3 Examine Selling Off Data Processing Corp

To enhance the value of competitive sourcing for city information technology, the city may want to consider selling the Data Processing Corporation. Under this process the city would award DPC a contract for its information technology services – provided that the cost is reduced by at least 15% to hit the assumed savings levels in the Roadmap to Reform. DPC would then have a long-term revenue stream (in addition to capital equipment and a valuable workforce) that could be potentially sold to a private firm.

This two-step process not only achieves savings on an annualized basis for taxpayers by virtue of lower information technology expenses, but would provide the City with a one-time, up front cash payment for the value of the DPC asset. This vehicle should be examined for feasibility before final decisions are made regarding the award of additional information technology contracts.

Reform 6.4 Divestiture of the Landfill

The City's landfill is a valuable asset – and cost savings can be achieved by transferring that asset to private operators. However, the deal must be structured in a way that benefits taxpayers today and protects taxpayers tomorrow.

To work the deal must provide the following elements:

- A fair lease payment to the city for the use of the landfill,
- An exceptional bargain for the dumping of General Fund solid waste,
- Adequate financing for proper environmental compliance costs

The City has contracted with an outside consulting firm to help manage the bid process, evaluate proposals, and structure the deal terms. For FY 12, the Roadmap includes the lowest-end of anticipated financial benefits to taxpayers from this deal.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
Environmental Services	Divestiture of Landfill	NA	$10,000,000

Long-Term Changes

Reform 6.5 Expanding Use of "Strategic Sourcing"

Outside of the immediate cost savings to the FY 12 budget, the Roadmap to Reform urges the Mayor and City Council to direct staff in FY 2012 to initiate the long-term use of "Strategic Sourcing" analysis to reduce contract expenditures and improve contract performance. A number of outside vendors provide strategic sourcing analytic services – and the city should consider engaging one using a no-risk "share-in-savings" contract to achieve additional cost savings.

Finally, in FY 2012 the City should approach other regional governments – including the county government, school districts, water districts, etc. – and explore the idea of creating a county-wide procurement vehicle for common services. Similar to the GSA and DOD supply schedules used by the Federal Government, San Diego taxpayers may see improved buying power and better rates if this vehicle is created.

Reform 6.6 Expanding Use of "Fixed-Price" and "Performance-based" Contracts

Another powerful reform that can save government money and improve program results is to implement "performance-based contracting (PBC)" for as many contracts as possible. Performance-based contracting is the soliciting of bids based on what results government wants accomplished, rather than what activities it wants conducted. It relies on performance standards being included in the contract as well as payments tied to achievement of results.

This is a significant change. By compensating a contractor for results rather than effort or activity, the transaction becomes more efficient for both the vendor and government. The vendor has the freedom and flexibility to do what they do best (produce the service) without micromanagement on activities from government. If it takes 10 hours or 10 months to deliver the service to government consistent with the quality standards of the contract, the payment is the same. And if the contractor does not perform the service according to the quality standards, it must re-do its work until the job is done. Period.

The contract is structured under a "fixed price" for each service purchase and no payment until performance is delivered. As a consequence of this payment method, transaction costs are reduced for both government and the vendor as paperwork and auditing requirements are streamlined. And of course, the focus on performance is likely to improve chances that government gets quality service.

This scenario stands in stark contrast to the preferred contracts used by government today: "cost-reimburse," "time and materials," and "fee-for-service" contracts. Under these contracting vehicles, government pays every time a contractor "works" on a project—encouraging a contractor to drag on the contract for as long as possible and take every opportunity to engage in an authorized activity under the contract.

As each and every city contract comes up for renewal, city departments should explore any and all ways to make new contracts "performance-based."

The city might want to consider a variety of other innovative contracting vehicles. Not all of these vehicles are appropriate for every service provided by government, but should at least be given consideration to see if a good fit can be made:

> ***Share-in-Savings Contracts:*** As referenced in the reorganization chapter, share-in-savings contracts limit the liability of government by paying contractors through the cost savings realized from a particular service. For example, the city might want to convert many information technology into share-in-savings contracts whereby the vendor provides the information technology services for free, but collects a percentage of the cost savings to the government from use of the technology.
>
> ***Fee-Based Service Delivery:*** Under this model, firms would be allowed to design a better process for delivering a city service (such as a license). The firm would then "sell" the service to the market at a fee. If the service provided was not faster and better, the market would not pay. However, if the firm could provide better services, then it would generate revenue. The city would still offer the service, but at a reduced staffing need.
>
> ***Reverse Auctioning Online:*** The city can tap the power of the internet to procure many goods and services using online auctions similar to those seen on eBay. Here's how it works: suppose the city wanted to print new letterhead for a department. A city department could advertise for a bid for new letterhead over the Internet with a set time period for submission of bids. The "current" bid price would fall as each vendor submitted a new, lower bid to win the contract.

Commitment 7: Job-Friendly Policies

City government should be a help – not a hindrance – to job creation and retention in our region through small business assistance programs and development programs targeting four core sectors (Tourism, Defense, High Tech, and Clean Tech)

The condition of our local economy is interrelated with the City's ability to restore its financial health. The city's top three revenues come from sales tax, property tax, and hotel (TOT) tax.

The recession had weakened revenues from sales tax and hotel taxes – as individuals and businesses throughout the country restrict their spending and travel. Further, the downturn in the housing market has impacted the City Outlook on property tax revenues.

The Roadmap to Reform emphasizes a strategy for adopting jobs-friendly policies to encourage the creation and retention of jobs in our region. The City should approach every decision with some basic questions in mind:

> *Does this policy make our market more or less attractive to private investment?*
>
> *Since time is money, and uncertainty creates risk, does this policy or process take longer than it should compared to other jurisdictions?*
>
> *Does this policy or process impose more burdens on families and businesses – increasing the cost of living or operating a business in the city?*

Unfortunately, the City Council has adopted or signaled its intention to adopt several "job killing" policies.

> *The downtown Planned District Ordinance (PDO) would chase away investment in hotels – significantly undercutting our potential for increased hotel tax revenue.*
>
> *A proposed hindrance (arguably a de facto ban) on "big box" stores threatens to chase some of the largest generators of sales tax revenues outside the city limits – transferring large sources of sales tax generation to neighboring jurisdictions.*

Instead of increasing tax rates and fees (e.g. fighting for more share of a static-sized pie), the City should examine ways to help foster economic growth (e.g. receiving more revenues from our existing share of an ever-growing economic pie).

FY 2012 Changes

Reform 7.1 Implement the "Open for Business" Small Business Action Plan

In June, our office published an "Open for Business" Small Business Action Plan containing eight separate reforms that would make city government friendlier for small businesses. Some of the reforms have been incorporated into other sections of the Roadmap to Recovery – such as Achieving 95% of transactions for small businesses online within five years and expanding city contracting opportunities.

Among the other reforms recommended:

> **Strengthen and Expand Business Improvement Districts**
> Business Improvement Districts should become the primary vehicle for technical assistance and issue advocacy for San Diego's small businesses. To achieve this, the City should actively work to expand Business Improvement Districts to cover a larger portion of the city – and should explore the potential of BIDs to provide

value-added services to specific industry segments.

Redefine the Role of the City's Office of Small Business
The Office of Small Business should be transformed from a "paper pushing" operation to a "problem solving" hub. To achieve this, the current focus of the office of administering the finances of the City's BIDs should be changed to use "performance-based contracts" to alleviate administrative burdens for City and BID staff alike.

A representative from each department with "high touch points" with small businesses (such as Development Services Department) should be partnered with remaining OSB staff to create a true "one stop center" for small business assistance.

Consolidate Small Business Enhancement Program Grants
The Small Business Enhancement Program (SBEP) grants are spread too thin, jeopardizing their ability to have a meaningful impact on services to small businesses. As such, the City should use a reformed process for achieving outcome-driven grant allocations. The recently reformed process for Community Development Block Grants represents a model that could be explored for consolidating limited SBEP grants to achieve more meaningful outcomes for small businesses.

Streamline Special Event Permitting and Management
Given the strategic importance of the tourism industry to San Diego and the role special events play in small business promotion, the City should overhaul its processes and costs for special events conducted within the city. The process should be modified to include practices that promote the transparency of City operations and allow for the waiver of City service cost-recovery fees for special event organizers.

Resist Tax and Fee Increases
Higher taxes and fees increase the operating costs of small businesses. Over the past two years a number of fees have increased – most notably water rates and permit fees.

The city's so-called "full cost recovery" policy is a worthy one, but only if the city's operating costs (salaries, pension benefits, staffing levels) are in line with competitive industry benchmarks. The city can hardly make the case that it is operating at peak efficiency, which is why there are ample opportunities to contain or reduce current fee levels for a variety of costs incurred by small businesses.

By implementing the pension and labor cost reforms we outline, the Mayor and City Council can actually offer fee relief to businesses in San Diego, helping to reduce operating costs. The full plan can be accessed at **http://www.sandiego.gov/citycouncil/cd5/news/.**

Reform 7.2 Extension of the Tourism Management District

In 2007, the Tourism Management District was created to promote San Diego tourism through aggressive marketing of our city. The TMD is privately funded through self-assessments on hotels. The TMD resulted in immediate cost savings to the city as the cost of funding ConVis was transferred from the General Fund to the TMD.

At an April City Council meeting, Councilmember DeMaio challenged the TMD Board to return to the city council with a long-range strategic plan outlining what marketing, infrastructure, hotel development, and other programs would be needed to achieve an increase in net hotel tax revenue to the city of $300 million by FY 2016.

TMD is approaching its sunset date – and action should be taken in FY 2012 to extend the TMD by an additional ten years. As part of the decision to extend the life of the TMD, city leaders should also consider potential investments and programs that can help grow San Diego's tourism industry, in-turn spiking revenues to the city's General Fund.

Long-Term Changes

In addition to the long-range plan being developed for the tourism industry, our office suggests that sector-specific economic growth plans should be developed for the following three industry clusters:

Defense
Clean tech
Bio Tech

In addition to pursuing strategies that are industry-specific, three important cross-cutting issues must be addressed to ensure the success of our regional economy for all industries. Councilmember DeMaio will be releasing proposals on the following key issues:

Producing a Workforce with 21st Century Skills

Workforce Housing

Sustainable Operations (Water and Energy)

Commitment 8: Rebuilding City Infrastructure

After years of neglecting maintenance of our streets, sidewalks and public facilities, city government must commit dedicated financing for and improved management of city infrastructure.

Over the years as the City of San Diego's financial problems have worsened, the city has neglected to properly maintain its assets and neighborhood infrastructure, resulting in a deferred maintenance backlog.

The impact to our quality of life has been significant. In a 2007 survey, only 38% of the City of San Diego roads were found to be in an "acceptable" condition.

Underfunding maintenance today only shifts (and increases) costs to taxpayers in the future. Deferring maintenance on neighborhood infrastructure creates future liabilities and costs when the backlog is finally confronted from a budgetary standpoint. The growth in cost occurs because of accelerated asset deterioration resulting from a lack of maintenance. In turn, this can cause shorter asset lifecycles and the need for total replacement or capital repair.

The city's infrastructure liability should be treated as seriously as our pension liability – with a rigorous financial assessment and monitoring. More importantly, the City must begin to shift its budget resources from labor costs back to infrastructure investments.

FY 2012 Changes

Reform 8.1 Begin Proper Accounting of and Budgeting for Infrastructure Deficit

The city's backlog of infrastructure needs has been estimated at over $1 billion, but this calculation is misleading as it excludes assets such as sidewalks. (The city excludes items such as sidewalks in order to avoid the legal responsibility of addressing the problems immediately.[1])

Furthermore, the city has yet to address deferred maintenance from a comprehensive financial liability perspective. Assuming that asset deterioration impacts maintenance cost, foregoing maintenance (much like underfunding payments to pension systems) causes an increase in costs or the need to replace assets earlier than the end of expected lifespan (borrowing money to do so). The end result is an overall more expensive strategy for taxpayers.[2, 3]

Perhaps more importantly, the city has yet to identify the quantitative year-over-year trend of this liability. Given that asset deterioration (and the associated cost) functions much like interest from a budgetary perspective, the growth rate of this liability must be identified in order to ensure a sufficient budgetary allocation to at least keep the liability from growing year over year [4].

It is important to note that the City Council has already expressed its desire to approach the deferred maintenance backlog from this perspective. On February 22, 2010, the City Council adopted eleven guiding principles to "guide the development of a comprehensive plan over the next several months to eliminate the City's structural budget deficit."[5]

1 See June 29, 2009 Report from Public Works Department, pg 2
2 Blue Ribbon Committee on Finances, February 2002, pp. 24-27.
3 San Diego City Auditor Performance Audit of the City's Street Maintenance Functions. October 26, 2009.
4 See Audit Committee Actions, November 9, 2009, Item 1.
5 See IBA Report 10-18 and Resolution R-305615

Principle #11 states that the City should:

> *"Develop a plan to fund deferred capital infrastructure and maintenance needs to reduce the current backlog, identify the level of funding necessary to prevent the problem from growing larger, and reduce the potential of increasing costs…"*

We believe that the when the City applies a strategic and data-driven approach toward the level of funding allocated for regular and deferred maintenance, long-term maintenance costs will be minimized due to the maximization of asset lifecycles through proper upkeep, providing taxpayers with the best possible value. In order to accomplish this goal, however, the required level of funding and the impact of inadequately funding ongoing and "catch-up" costs must first be understood.

Reform 8.2 Create a Single "Streets Department" for Improved Infrastructure Management

The Roadmap to Reform endorses the idea to consolidate all functions relating to the maintenance of city streets into one single department. Currently the functions with responsibilities for city streets are scattered across several offices. This challenge has been identified in a City Auditor report – and a consolidation in now underway. [6]

Furthermore, the City Auditor has released a report on one of the three main components of the city's acknowledged deferred maintenance backlog: streets [7]. The Auditor's report highlights many aspects of the city's street maintenance and repair operations requiring improvement, concluding that the strategy employed by the city could cause the "costs of maintaining streets [to] greatly increase over the long term should deferred maintenance needs not be strongly addressed." The audit also documents that opportunities for improvement exist within the streets division that would allow for the most efficient use of budgeted funds for the maintenance and deferred maintenance related to streets.

By the end of FY 12, the Mayor and City Council should insist upon full implementation of the recommendations identified by the City Auditor to improve management of city street repairs and maintenance.

Long-Term Changes

Reform 8.3 Adopt a Five Year Spending Cap With An Infrastructure Financing Reserve

The Roadmap to Recovery provides a five-year fiscal forecast projecting revenues and expenditures in the City's General Fund. If the economy recovers, any increased revenues received above the forecast contained in the current budget package should be set aside into the reserve account to be spent exclusively on repairing San Diego's infrastructure.

To instill spending discipline, and to lockbox funds for repairing neighborhood infrastructure in this manner, the following ballot measure should be placed before the voters at the next election:

> ***Section XXX: Infrastructure Financing Lock Box***
>
> *There is hereby created an Infrastructure Financing "Lock Box" Fund in the General Fund for the purpose of reducing the deferred maintenance liability in city infrastructure.*
>
> *Beginning with FY 2012 and continuing through FY 2016, any increase in General Fund revenues above 2% per annum shall be deposited in the Infrastructure Financing "Lock Box" Fund for the purpose of rebuilding core city infrastructure.*
>
> *In expending funds from this Infrastructure Financing "Lock Box" Fund, the Mayor and City Council shall make every effort to leverage funds to facilitate the maximum level of investment in infrastructure. In selecting projects to be funded from the "Lock Box" Fund, the Mayor and Council shall give priority to repair of streets, sidewalks, and public facilities.*
>
> *The City Auditor shall verify that the appropriate amount of funds are deposited annually into this reserve account and shall audit the use of the funds to ensure funds are used solely for infrastructure repair and improvement.*

[6] See September 7, 2010 memo from Public Works Department.

[7] "Performance Audit of the City's Street Maintenance Functions." San Diego City Auditor. October 26, 2009.

Commitment 9: Regional Government Solutions

Opportunities for funding and delivery of some city functions should be explored for consolidation between the City and the County government, Port of San Diego, and Redevelopment Agency.

San Diego taxpayers are the shareholders of all local government entities – such as the city government, school district, County government, Port and Redevelopment Agency. Taxpayers also stand to benefit from a collaborative effort among these agencies to produce the most efficient and integrated services possible.

We believe that there are numerous opportunities for improved coordination and collaboration across government entities around the San Diego region.

FY 2012 Changes

Reform 9.1 Seek to Improve General Fund Benefits from Centre City Development Corporation (CCDC)

The City has been successful in protecting the General Fund by transferring annual Petco Park debt service to CCDC. We believe that additional opportunities exist for holding the redevelopment agency and CCDC accountable for serving the public interest.

Recent actions taken by the State have raised the cap for the downtown redevelopment area. Unfortunately, this cap increase carries risks for San Diego taxpayers. The City Council had originally approached a cap increase with the express desire to build in mechanisms to protect the General Fund from lost revenues.

The City can take action to help ensure that the cap increase does not negatively impact the General Fund due to lost property taxes. It is not enough protection to taxpayers simply to say the cap increase will facilitate economic development – and in turn generate hotel tax and sales tax revenues for the General Fund. Those revenues are not part of the cap deal – property taxes are.

In FY 2012, the Mayor and City Council should adopt the following reforms:

> **Petco Park:** Require that all remaining debt payments for Petco Park be assumed and paid entirely by the Redevelopment Agency. Currently, five years of debt payments have been approved (FY 2009 – FY 2013). This decision would make the debt payment arrangement permanent and will provide major General Fund benefit beginning in FY 2014 – reducing General Fund expenses by $11.3 million in that year.[1]
>
> **Convention Center:** Commit to exploring all legal avenues to transferring remaining debt service for the Convention Center from the General Fund to the Redevelopment Agency. While CCDC was not directly involved in the Convention Center, the case can easily be made that this asset generates property tax revenues by supporting existing and proposed hotels in the CCDC project area. Despite legal hurdles, the possibility has been raised that expanding the Convention Center may provide a means to consolidate outstanding debt on the facility and transfer it to CCDC.[2]
>
> The City currently contributes approximately $9.2 million toward the debt service for the Phase 2 Convention Center expansion of the Convention Center. The Unified Port of San Diego currently contributes $4.5 million annually, for a total debt service payment of $13.7 million per year that will not be retired until April of 2028.

[1] See IBA Report 09-16.
[2] See City Attorney Memorandum MS 59. June 10, 2010.

However, the Port's contribution is scheduled to expire, and the entire debt service burden will be the responsibility of the City beginning in FY 2015. As a result, the successful outcome of this decision could provide major General Fund benefit of at least $9.2 million annually, and up to $13.7 million annually beginning in FY 2015.

Repayment of Community Development Block Grant (CDBG) Debt
The City will receive a total repayment of $78.8 million, made over a 10-year period from CDBG loan repay ments from the redevelopment agency. These payments will be treated as program income to the City's CDBG program, and include several other conditions.[3]

While CDBG monies can be used to support a variety of General Fund expenses, it should be recognized that transferring these payments can be complicated due to restrictions imposed by the U.S. Department of Housing and Urban Development (HUD).

Repayment of Non-CDBG Agency Debt
The Redevelopment Agency "currently holds approximately $40.2 million in non-CDBG long-term debt to the City, including principle and interest."[4] Given the downtown redevelopment area's recent cap increase, we recommend that a repayment plan for this debt to be considered by the City Council at a date in the near future, as a significant opportunity for generating an additional General Fund revenue stream may exist.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
Redevelopment Agency	Repayments/Expenditure Transfers	NA	$3,000,000

Reform 9.2 Push the Port District to Continue $4 Million in Support for Convention Center

We are concerned that the proportionate share of revenues generated by the Port District from properties located inside the City of San Diego may not match the proportionate value received by San Diego city taxpayers.

As mentioned above, the Port currently provides a $4.5 million payment to assist the city with debt service on the Convention Center, which is set to expire in FY 2014. The Port derives significant benefit from the Convention Center – including parking revenues beneath the Center and lease rates from hotels supported by the Convention Center.

In FY 2012, city leaders should aggressively pursue an agreement to continue the $4.5 million payment from the Port for the Convention Center debt service. If debt service is transferred to the Redevelopment Agency as planned, this contribution payment should be considered for use in supporting the operating costs of the Convention Center – which currently are subsidized by the General Fund at approximately $4 million annually.

Long Term Changes

IN PROGRESS – ADDITIONAL REFORMS IN DEVELOPMENT

We believe that a number of additional ideas should be explored for transforming how local government entities work together to serve taxpayers more efficiently and effectively. These include:

- Exploring the pros and cons of dissolving the Port of San Diego – with responsibility of Port functions within the City of San Diego reverting to city government, along with all the lease revenues for those properties to be used exclusively for the benefit city taxpayers
- Consolidating the Harbor Police with the San Diego police department and lifeguard service
- Transferring prosecution of misdemeanor crimes from the City Attorney's Office to the District Attorney
- Consolidation of support functions between the county and the city (e.g. auto maintenance, facilities management, energy supplies, contracting vehicles, etc.)

3 See IBA Report 10-17.
4 Ibid.

Commitment 10: Leading by Example

Reforming Elected Official Pensions and Reducing Mayoral and Council Expenses

FY 2012 Changes

Reform 10.1 Close the Defined Benefit Plan for Politicians and Establish a 401(k) Plan

Elected officials currently receive the richest retirement multiplier of any city employee classification.

While we have previously proposed overhauling the current pension and contribution subsidy provided to elected officials, we propose the following amendment to the Municipal Code be made as part of this plan:

§24.1708 Elected Officer Retirement Plan Effective December 1, 2010

Any Elected Officer who takes office after December 1,2010 shall not be eligible to enroll in the retirement system provided for in Sections 24.1701 through 24.1707.

Any Elected Officer who takes office after December 1,2010 shall only receive a retirement allowance in the form of an employer contribution to match up to 7% of the annual base salary of that Elected Officer. For any year when the City of San Diego makes payments on behalf of Elected Officers into the federal Social Security system, the match shall be capped at no more than 3% of the annual base salary of the Elected Officer.

Reform 10.2 Eliminate Taxpayer Subsidy of Politicians' Pensions

While the "offset" for elected officials has been eliminated, this reform falls short of requiring city politicians to pay an equal share toward the cost of their pension benefits.

As recently as 2002, the Municipal Code section §24.1704 has been clarified to "cap" the pension contributions of elected officials. This cap causes the contribution determined by the retirement system (SDCERS) to be calculated at rates lower for elected officials than for other city employees – generating an additional subsidy.

The City Council should immediately implement the following reform:

§24.1704 Contribution Rate

The ~~City Auditor and~~ Comptroller ~~will~~ shall withhold from the wages or salary of a Elected Officer who becomes a Member of this System an amount necessary to ensure compliance with the substantially equal requirement of City Charter Section 143 ~~8% of his or her Base Compensation~~, which will be deposited in the Retirement Fund and credited to the individual Member's account. No Elected Officer Member shall be eligible to purchase service credits. ~~The employee contribution rate will also be 8% of Base Compensation for any purchase of prior service as an Elected Officer Member~~.

Any Elected Officer in office as of the passage of this ordinance shall provide the City Attorney a waiver of the right to receive the 8% contribution cap previously established in the Municipal Code.

For any Elected Officer who fails to provide such a waiver by November 1, 2010, the City Comptroller shall reduce that Official's Base Compensation by an amount equal to the difference between one-half of the annually determined Normal Cost of that Official's retirement and the amount determined by the contribution rate in effect prior to the amendment of this section.

City Council Pension Costs (Expressed as % of Payroll)		
Base Pay: FY 2011 Budget	$75,096	
Employer Rate	30.53%	$22,927
Member Contribution Rate	9.06%	$6,804
Total Normal Cost Rate	39.59%	$29,731
City Offset (Reflects Recent Elimination)	*0.00%*	*$0*
Net Normal Cost (City)	30.53%	$22,927
Net Normal Cost (Councilmember)	9.06%	$6,804
FY 2011 UAL Rate	39.15%	$29,400
FY 2011 GRAND TOTAL		$59,131
Total FY 2011 Pension Cost (City)	69.68%	$52,327
Total FY 2011 Pension Cost (Councilmember)	9.06%	$6,804

Sources: City of San Diego FY 2011 Budget and SDCERS June 30, 2009 Actuarial Valuation

Reform 10.3 Cut Mayoral and City Council Budgets by 10%

The City of San Diego currently funds 126 budgeted positions to cover all operations of the City Council and Mayor. These positions include elected officials, policy advisors, community representatives and administrative staff. These positions are divided across several departments including individual Council Districts, Community and Legislative Services, the Office of the Independent Budget Analyst (IBA), and Council Administration.

While the FY 2011 Proposed Budget required a corrective action to City Council office budgets, the FY 2011 Adopted Budget still understates Council budgeted expenditures by adding “revenue” to Council budgets, entitled “Adjustment to Approved Levels.” This analysis accounts for these adjustments, showing budgeted expenditures of $16.2 million to fund these departments.[1, 2, 3]

Comparison of the City of San Diego to other major U.S. cities shows that several appropriate significantly less to Council and Mayoral operations than the City of San Diego. Consequently, we believe the City can save at least $1.38 million (8.5 %) of this funding through careful examination of current budgets and operational efficiencies. Given the severity of current budgetary circumstances, however we recommend a 10% savings target spread across these departments.

Department	FY 2011 Budget	Positions
City Council Districts	$8,508,564	80.50
City Council Administration	$1,925,987	12.88
Independent Budget Analyst	$1,618,787	10.00
Adjustment to Approved Levels	**$634,472**	
Total	**$12,687,810**	**103.38**

When including the budget adjustment for fringe, City Council related expenditures are budgeted to increase by $1.85 million (17.08%) over FY 2010 budget levels.

The Mayoral budget is comprised of the Office of the Mayor and the Community and Legislative Services Department.

[1] IBA Report 10-37
[2] IBA Report 10-43
[3] Our review finds $634,472 in Council budget revenue adjustments explicitly called-out in the FY 2011 Adopted Budget.

Department	FY 2011 Budget	Positions
Office of the Mayor	$94,074	1.00
Community and Legislative Services	$3,408,650	21.67
Total	$3,502,724	22.67

The FY 2011 budget for Community and Legislative Services represents an increase of $241,220 (7.80%) over FY 2010 budget levels.

City Council Districts/Community and Legislative Services

During the initial stages of the implementation of the City of San Diego's Mayor-Council form of government, City leaders were careful to maintain the balance of power between the City's redefined executive and legislative branches by creating the Office of the Independent Budget Analyst and securing comparatively equal funding for Mayor and Council supportive staff. By doing so, they solidified the system of checks and balances established by the Mayor-Council governance form. For this reason, we find that in the absence of strong reasoning to the contrary, all cuts to Mayoral or Council supportive staff should be made in equal proportions. Consequently, we recommend that the budgets of City Council Districts and Community and Legislative Services should each be cut by at least 8.6%.

City Council Administration

The City Council currently maintains six Committees for the purpose of evaluating specific issues within the City: Rules Committee, Natural Resources and Culture Committee, Public Safety and Neighborhood Services Committee, Land Use and Housing Committee, Budget and Finance Committee, and Audit Committee.

Formation and operation of Committees are governed by Article 2, Division 1, Rule 6 of the City's Administrative code. Rule 6.6 outlines the use of committee consultants and legislative analysts by a Committee and its members. Although committee consultants and legislative analysts are distinct and separate positions, their assignment of responsibilities under Rule 6.6 involves similar tasks.

Committee consultants are provided by the Council Administration Division and are tasked with the administrative duties associated with the operations of a specific Committee. In addition to administrative duties, committee consultants "shall, when directed by the committee chair, prepare an objective informational analysis addressing both the policy and fiscal considerations of any matter that is reviewed by the committee." Legislative analysts are provided by the Office of the Independent Budget Analyst and "may be assigned to provide policy analysis and reports on legislation initiated by the Council, provide policy related research and analysis on legislation initiated by the Mayor and independent departments, and conduct any special studies as requested by a majority of the Council."

As both committee consultants and legislative analysts have been tasked with the responsibility of providing policy analysis for the Council, the operations of Council Committees could be made more efficient by consolidating these responsibilities into one position. If all policy analysis responsibilities were assigned to legislative analysts, committee consultants would have a greater capacity to address administrative duties. Under the current provisions of Rule 6.6, each Committee must be assigned a committee consultant; however should the capacity of committee consultants to address administrative duties be increased; a single committee consultant could serve multiple Committees with a limited impact to service quality. Requiring each committee consultant to serve two Committees as opposed to one could allow the City to reduce its staffing needs in this area by 50%. The Council Administration Division's current budget for committee consultants is $458,355; therefore, a 50% reduction in staffing could result in approximate savings of $229,178.

Office of the Independent Budget Analyst

Reassignment of committee consultant duties to IBA staff will likely place an increased burden on this office. Recognizing this, we recommend that the IBA budget be reduced by a significantly smaller proportion (4.7%) than other Mayoral and Council supportive departments. This smaller reduction is offset by a comparatively larger reduction (11.9%) to the Council Administration budget.

Proposed 10% Cut
However, given the severe budgetary issues currently faced by the City, we are recommending an additional $234,758 in budget cuts to obtain a full 10% budget reduction, but in the same proportion to the recommended cuts at the 8.55% level.

Department	FY 2011 Budget	Reduction (Minimum Level)		Proportionate Reduction (10% Level)
City Council Districts	$8,508,564	$731,737	8.60%	$855,830
Adjustment to Approved Levels	$634,472	$54,565	8.60%	$63,818
City Council Administration	$1,925,987	$229,178	11.90%	$268,043
Independent Budget Analyst	$1,618,787	$75,672	4.67%	$88,505
Office of the Mayor	$94,074	$0	0.00%	$0
Community and Legislative Services	$3,408,650	$293,144	8.60%	$342,857
TOTAL	**$16,190,534**	**$1,384,296**	**8.55%**	**$1,619,053**

**Assumes a net reduction of 18-20 staff

Long-Term Changes

Reform 10.4 Create 9th City Council District in "Budget Neutral" Manner

In June 2010, voters overwhelmingly approved the Strong Mayor-Strong Council form of government and created a 9th City Council seat. Councilmember DeMaio has proposed that the cost of the 9th City Council district office be "budget neutral" – with commensurate reductions in other Council budgets to accommodate for the cost of an added Council office. This change would occur in the FY 13 budget.

"Taxpayers deserve a **genuine commitment** from their elected leaders to fix the city's financial problems once and for all. Together we can build a city government we can be **proud** of again!"

Carl DeMaio

For updates on Councilmember Carl DeMaio's efforts to reform city government, visit **www.sandiego.gov/cd5**